

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|---------------------------------------------------------------|------------------------|
| Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name CITY OF POTTERVILLE | County EATON |
| Audit Date 6/30/05 | Opinion Date 8/23/05 | Date Accountant Report Submitted to State: 12/23/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

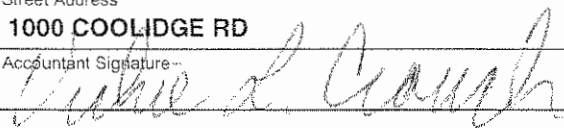
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|-------------------------------------------------------------------------------|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|-------------------------------------------------------------------------------------------------------------|-----------------------------|-------------------------|---------------------|
| Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C. | | | |
| Street Address 1000 COOLIDGE RD | City EAST LANSING | State MI | ZIP 48823 |
| Accountant Signature  | | Date 12/22/05 | |

CITY OF POTTERVILLE, MICHIGAN
EATON COUNTY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
AND
INDEPENDENT AUDITOR'S REPORT



Layton & Richardson, P.C.
Certified Public Accountants

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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To the Mayor and City Council
City of Pottersville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pottersville, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Pottersville, Michigan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The City's basic financial statements for the year ended June 30, 2004 were audited by other auditor's who expressed an unqualified opinion. We did not audit the financial statement of the Tax Increment Finance Authority which represents 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit is based on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, the aggregate remaining fund information of the City of Pottersville, Michigan at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2005 on our consideration of the City of Pottersville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Potterville, Michigan's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
August 23, 2005

City of Potterville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2005

The management of the City of Potterville, Michigan (the City) offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

Government-Wide

- The assets of the City exceeded its liabilities at the close of this fiscal year by \$6,111,717 (shown as *Net Assets*), representing an increase of \$32,863 over the previous fiscal year. Governmental Funds had an increase of \$172,202 for the year, while Business-Type activities had a decrease of \$139,339 of the net increase of \$32,863.

Fund Level Financial Highlights

- As of June 30, 2005, the governmental funds of the City of Potterville reported combined ending fund balances of \$487,680.00, of which \$354,130.00 is unreserved.
- The unreserved fund balance of the City's General Fund increased this year to \$131,560.00, or 23.9% of total general fund expenditures.

Long-Term Debt

- The City of Potterville's total debt **Decreased** by \$4,760 during the fiscal year. The City combined three outstanding bonds for recreational facilities into one issue of \$675,000; the 2005 Refunding Building Authority Bonds.

Overview of the Financial Statements

The City of Potterville's financial statements consist of three components:

1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the City's financial position. The Statement of Net Assets and the Statement of Activities are two new financial statements that report information about the City as a whole, and provide measurements of long-term

City of Potterville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2005

trends. They are presented using a method of accounting that is similar to a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, the difference between the two being reported as the Net Assets of the City. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the City is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The *Statement of Activities* gives the information on the revenues and expense causing the underlying change in the government's net assets during the most recent fiscal years. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

Focus on Funds

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The City's major Governmental Funds include the General Fund, Major Street Fund, Local Street Fund, Park Fund Storm Drain Bonds, and Sunset Hills Special Assessment. The major Proprietary Funds include the Water and Sewer Funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Potterville uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the City's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term

City of Potterville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2005

inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the government fund Balance as expenditure. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the City include the General Fund as well as the special revenue, and debt service funds.

Proprietary Funds Proprietary funds account for services for which the City charges its customers for their services they are provided. These charges can be to external customers or other agencies for the services they are provided. These charges can be to external customers or other agencies within the City. There are two types of proprietary funds:

- Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and Sewer Fund.
- Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. These funds allow the City to allocate costs of centralized services such as the City's vehicle fleet. The City has one internal service fund, the Equipment Pool Fund.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs. These funds are counted for using the full accrual method of accounting much like the Proprietary funds.

Component Units The City's financial statements include reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component units include the Tax Increment Financing Authority.

Joint Venture The City of Potterville and Benton Township entered into an inter-local agreement for the purpose of providing fire and emergency services to their respective units. Both local governmental units have an undivided 50% joint ownership of the Fire Department and its operations. The Fire Department issues its own financial statements and they are not included in this report.

City of Pottersville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2005

Notes to the Financial Statements

The Notes to the Basic Financial Statement provide additional information that is essential to a complete understanding of the information provided in both the Government-wide and the Fund Financial Statements.

Other information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-wide Financial Statements section of this document. This statement is useful for providing an indicator of the City's financial position over time. The Net Assets of the City are \$6,111,717.00 as of June 30, 2005, meaning that the City's assets were greater than its liabilities by this amount.

| City of Pottersville Net Assets as of June 30, 2005 and 2004 | | | | | | |
|-----------------------------------------------------------------|-------------------------|------------------|--------------------------|------------------|--------------------------|------------------|
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Current and other assets | 652,699 | 746,171 | 587,904 | 616,053 | 1,240,603 | 1,362,224 |
| Capital Assets | 2,844,074 | 2,668,253 | 4,235,622 | 4,382,264 | 7,079,696 | 7,050,517 |
| Total Assets | 3,496,773 | 3,414,424 | 4,823,526 | 4,998,317 | 8,320,299 | 8,412,741 |
| Long-term liabilities | 947,207 | 1,018,109 | 942,000 | 987,502 | 1,889,207 | 2,005,611 |
| Other liabilities | 223,785 | 242,736 | 95,590 | 85,539 | 319,375 | 328,275 |
| Total Liabilities | 1,170,992 | 1,260,845 | 1,037,590 | 1,073,041 | 2,208,582 | 2,333,886 |
| Net Assets | | | | | | |
| Invested in capital assets net of related debt | 1,761,776 | 1,523,880 | 3,261,188 | 3,347,087 | 5,022,964 | 4,870,967 |
| Restricted | 5,054 | 49,746 | 0 | 0 | 5,054 | 49,746 |
| Unrestricted | 558,951 | 579,953 | 524,748 | 578,189 | 1,083,699 | 1,158,142 |
| Total Net Assets | 2,325,781 | 2,153,579 | 3,785,936 | 3,925,276 | 6,111,717 | 6,078,855 |

The most significant portion of the City's Net Assets are the investments in capital assets (e.g. land, buildings, equipments, infrastructure, and others), less any related debt which is outstanding that the City used to acquire or construct the asset. The City has \$1,083,699.00 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by the City policies regarding their use.

City of Potterville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2005

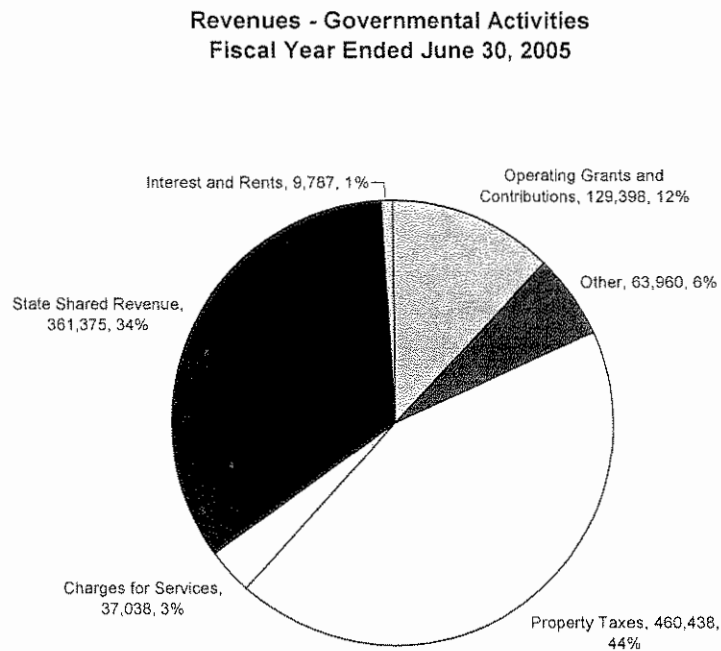
The total net assets of the City increased \$32,863 in this fiscal year. The following table illustrates and summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the government-wide Statement of Activities.

| City of Potterville Change in Net Assets for the Fiscal Year Ended June 30, 2005 | | | | | | |
|----------------------------------------------------------------------------------------|-------------------------|------------------|--------------------------|------------------|--------------------------|------------------|
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | 37,038 | 34,684 | 371,717 | 381,302 | 408,755 | 415,986 |
| Operating Grants and Contributions | 129,398 | 143,210 | 0 | 0 | 129,398 | 143,210 |
| General Revenues | | | | | | |
| Property Taxes and Assessments | 460,438 | 409,347 | 0 | 0 | 460,438 | 409,347 |
| State Shared Revenue | 361,375 | 226,454 | 0 | 0 | 361,375 | 226,454 |
| Unrestricted Investment Earnings | 9,787 | 15,554 | 716 | 271 | 10,503 | 15,825 |
| Intergovernmental Revenue | (38,600) | 80,544 | 0 | 0 | (38,600) | 80,544 |
| Other | 102,560 | 75,872 | 95,699 | 89,739 | 198,259 | 165,611 |
| Total Revenues | <u>1,061,996</u> | <u>985,665</u> | <u>468,132</u> | <u>471,312</u> | <u>1,530,128</u> | <u>1,456,977</u> |
| Expenses | | | | | | |
| Legislative | 9,110 | 10,915 | 0 | 0 | 9,110 | 10,915 |
| General Government | 252,099 | 267,043 | 0 | 0 | 252,099 | 267,043 |
| Public Safety | 216,509 | 213,742 | 0 | 0 | 216,509 | 213,742 |
| Public Works | 100,379 | 154,832 | 0 | 0 | 100,379 | 154,832 |
| Recreation and Culture | 91,128 | 75,865 | 0 | 0 | 91,128 | 75,865 |
| Other Functions | 0 | 66,651 | 0 | 0 | 0 | 66,651 |
| Depreciation | 165,596 | 158,563 | 0 | 0 | 165,596 | 158,563 |
| Interest on Long-Term Debt | 85,826 | 73,576 | 0 | 0 | 85,826 | 73,576 |
| Water and Sewer | 0 | 0 | 589,630 | 463,730 | 589,630 | 463,730 |
| Total Expenses | <u>920,647</u> | <u>1,021,187</u> | <u>589,630</u> | <u>463,730</u> | <u>1,510,277</u> | <u>1,484,917</u> |
| Increase (Decrease) in Net Assets | 141,349 | (35,522) | (121,498) | 7,582 | 19,851 | (27,940) |
| Beginning Net Assets | 2,153,579 | 2,189,101 | 3,925,275 | 3,917,693 | 6,078,854 | 6,106,794 |
| Prior Period Adjustment | 30,853 | 0 | (17,841) | | 13,012 | 0 |
| Ending Net Assets | <u>2,325,781</u> | <u>2,153,579</u> | <u>3,785,936</u> | <u>3,925,275</u> | <u>6,111,717</u> | <u>6,078,854</u> |

City of Potterville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2005

Governmental Activities

The following chart details the revenue sources for the governmental activities of the City for the fiscal year ended June 30, 2005.



The most significant portion of the revenue for all government activities of the City of Potterville comes from Property Taxes. The City's millage as the charter allows is 12.25 mills for operations.

State Shared Revenue is collected by the State of Michigan and is distributed to local governments by formula allocation of portions of the State Sales Tax and Motor Fuel Weight Taxes. In 2005 the amount of State Shared Revenue received by the City increased by \$134,921.00 over 2004.

The General Government expenses that total 27.4% of total expenses dominate the City's governmental activities expenses. The City spent \$252,099.00 in FY2005 on General Government. Public Safety represented the next largest expense at \$216,509.00 or 23.5% of total expenses within the governmental activities.

City of Pottersville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2005

Business-Type Activities

These activities accounted for a decrease of \$139,340 in the City's Net Assets.

The Business-Type activities of the City include the Water and Sewer Fund, which provide water and sewer utilities to City residents as well as commercial customers.

Financial Analysis of the Government's Funds

Governmental Activities At the completion of the City's fiscal year on June 30, 2005 its governmental funds reported fund balances of \$487,680. Of this amount \$354,130 or 72.6% is unreserved. Of this amount \$222,570 of unreserved and undesignated fund balances exists in the City's Special Revenue funds. The remaining \$133,550 of fund balance of the governmental funds is reserved for specific purposes and is therefore not available for new appropriation.

General Fund The General Fund is the main operating fund of the City. The general Fund increased its balance in this fiscal year by \$1,878, bringing the balance to \$131,560. The General Fund's major functions that ended the year with expenditures above appropriated amounts include: Legislature, Public Safety, and Public Works. Property Tax revenues in the General Fund increased \$51,091 in 2005, an increase of 12%.

Major Street Fund The fund balance of the Major Street Fund ended the year at \$108,300. This was a decrease of \$104,487 from the previous year.

Local Street Fund The fund balance of this fund is at \$90,327, due to the Vermontville Highway project, an increase of \$11,025, during this fiscal year.

Proprietary Funds The City's proprietary funds provide virtually the same information as the government-wide statements; however more detail may be found in the fund financial statements.

Water Fund The Water Fund ended this fiscal year with \$287,016.00 in unrestricted net assets. However, the total operating revenues of the fund decreased from \$233,901.00 in FY2004 to \$208,553.00 in 2005. The net assets of the fund decreased by \$41,813.00.

Sewer Fund The Sewer Fund ended this fiscal year with \$237,732.00 in unrestricted net assets. However the total operating revenues increased from \$168,140.00 in FY2004 to \$179,863.00 in 2005. The net assets of the fund decreased by \$79,685.00.

City of Potterville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2005

Capital Asset and Debt Administration

Capital Assets The City's investment in capital assets for the governmental and business-type activities as of June 30, 2005 amounted to \$7,079,696 (net of accumulated depreciation). Capital assets of the city include any items purchased that cost in excess of \$5,000.00 and have an expected useful life of over one year. The City has invested in a broad range of capital assets, as detailed below:

City of Potterville
Capital Assets as of June 30, 2005

| | Governmental Activities | Business-Type Activities | Total Primary Government |
|-----------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Land and Land Improvements | 223,263 | 260,076 | 483,339 |
| Infrastructure | 3,002,757 | 5,578,455 | 8,581,212 |
| Buildings | 531,027 | 0 | 531,027 |
| Improvements other than Buildings | 1,151,225 | 0 | 1,151,225 |
| Machinery and Equipment | 315,736 | 731,242 | 1,046,978 |
| Subtotal | 5,224,008 | 6,569,773 | 11,793,781 |
| Accumulated Depreciation | 2379934 | 2334151 | 4,714,085 |
| Net Capital Assets | 2,844,074 | 4,235,622 | 7,079,696 |

Additional information regarding the City's capital assets can be found in the Notes to Financial Statements section.

Long Term Debt As of June 30, 2005, The City had total debt outstanding of \$2,057,298.00. Of this amount \$1,695,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources. The revenue bonds are from the Sewer Fund (\$305,000) which are backed by revenues from the Sewer system and have been used to finance major capital projects within the Sewer system

City of Potterville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2005

City of Potterville Outstanding Debt
General Obligation and Revenue Bonds
as of June 30, 2005

| | Governmental Activities | Business-Type Activities | Total Primary Government |
|--------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| General Obligation Bonds | 1,025,000 | 670,000 | 1,695,000 |
| Contracts and Notes | 57,298 | 0 | 57,298 |
| Revenue Bonds | 0 | 305,000 | 305,000 |
| Total | <u>1,082,298</u> | <u>975,000</u> | <u>2,057,298</u> |

State statutes limit the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The current debt limitation based on the City's assessed valuation is significantly in excess of the City's outstanding general obligation debt of \$1,695,000.

The total debt decreased by \$145,898 at June 30, 2005, a net reduction of \$145,898. More information on the City's long-term debt is available in the Notes to Financial Statements section of this document.

Contacting the City's Finance Department

This Financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the City of Potterville, City Clerk, 319 N. Nelson Street, Potterville, MI 48876, or call (517) 645-7641.

The financial reports for the Tax Increment Financing Authority, a component unit of the City, can be obtained by contacting City of Potterville Tax Increment Financing Authority, 319 North Nelson Street, Potterville, MI 48876.

The Financial reports for the Potterville-Benton Township Fire Department, a joint venture of the City, can be obtained by contacting Potterville-Benton Township Fire Department, 4713 Hartel Road, Potterville, MI 48876.

GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2005

| | GOVERNMENTAL ACTIVITIES | BUSINESS- TYPE ACTIVITIES | TOTAL | COMPONENT UNIT |
|-----------------------------------------------------|----------------------------|---------------------------------|-------------------------|-----------------------------|
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash | \$ 299,455 | \$ 491,101 | \$ 790,556 | \$ 398,433 |
| Investments | | | | 74,761 |
| Receivables | | | | |
| Accounts | | 39,751 | 39,751 | 291 |
| Special assessment | 111,717 | | 111,717 | |
| Due from | | | | |
| Other governmental units | 158,938 | | 158,938 | |
| Other funds | 46,635 | | 46,635 | |
| Component unit | 1,028 | | 1,028 | |
| Bond discount, net of amortization | 25,000 | | 25,000 | |
| Deferred debt expense-net | | | | 26,212 |
| Restricted assets | | | | |
| Cash | | 57,052 | 57,052 | |
| Prepaid insurance | 9,926 | | 9,926 | |
| Capital assets (net of accumulated depreciation) | <u>2,844,074</u> | <u>4,235,622</u> | <u>7,079,696</u> | <u> </u> |
| TOTAL ASSETS | <u>\$ 3,496,773</u> | <u>\$ 4,823,526</u> | <u>\$ 8,320,299</u> | <u>\$ 499,697</u> |

See accompanying notes to financial statements.

| | GOVERNMENTAL ACTIVITIES | BUSINESS- TYPE ACTIVITIES | TOTAL | COMPONENT UNIT |
|---------------------------------------------------|----------------------------|---------------------------------|---------------------|-------------------|
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 13,425 | \$ 3,378 | \$ 16,803 | \$ |
| Accrued interest payable | 26,081 | 10,968 | 37,049 | 4,376 |
| Customer deposits payable | | 14,520 | 14,520 | |
| Pension payable | 2,495 | 4,858 | 7,353 | |
| Accrued payroll | 14,546 | 10,551 | 25,097 | |
| Due to other funds | 13,989 | 1,690 | 15,679 | 11,366 |
| Other | 1,644 | | 1,644 | |
| Compensated absences | 16,514 | 16,625 | 33,139 | |
| Bonds and notes payable | 135,091 | 33,000 | 168,091 | 50,000 |
| Noncurrent liabilities | | | | |
| Bonds payable | 915,000 | 942,000 | 1,857,000 | 445,000 |
| Equipment contracts payable | 32,207 | | 32,207 | |
| TOTAL LIABILITIES | <u>1,170,992</u> | <u>1,037,590</u> | <u>2,208,582</u> | <u>510,742</u> |
| NET ASSETS | | | | |
| Invested in capital assets net of related debt | 1,761,776 | 3,261,188 | 5,022,964 | |
| Restricted for debt service | | | | |
| Park expenditures | 5,054 | | 5,054 | |
| Unrestricted | 558,951 | 524,748 | 1,083,699 | (11,045) |
| TOTAL NET ASSETS | <u>2,325,781</u> | <u>3,785,936</u> | <u>6,111,717</u> | <u>(11,045)</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,496,773</u> | <u>\$ 4,823,526</u> | <u>\$ 8,320,299</u> | <u>\$ 499,697</u> |

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

| | | PROGRAM REVENUES | |
|-------------------------------------------|--------------|------------------|--------------------------|
| | | CHARGES FOR | OPERATING |
| | EXPENSES | SERVICES | GRANTS AND CONTRIBUTIONS |
| FUNCTIONS/PROGRAMS | | | |
| Primary Government | | | |
| Governmental Activities | | | |
| Legislative | \$ 9,110 | \$ | \$ |
| General government | 252,099 | | |
| Public safety | 216,509 | | |
| Public works | 100,379 | 4,270 | 119,398 |
| Recreation and culture | 91,128 | 32,768 | 10,000 |
| Other functions | | | |
| Debt service - interest on long-term debt | 85,826 | | |
| Unallocated depreciation | 165,596 | | |
| Total Governmental Activities | 920,647 | 37,038 | 129,398 |
| Business-Type Activities | | | |
| Water | 294,866 | 200,445 | |
| Sewer | 294,764 | 171,272 | |
| Total Business-Type Activities | 589,630 | 371,717 | |
| Total Primary Government | \$ 1,510,277 | \$ 408,755 | \$ 129,398 |
| Component Unit | | | |
| Tax increment financing authority | \$ 51,150 | \$ | \$ 1,923 |
| General Revenues | | | |
| Property taxes | | | |
| State shared revenue | | | |
| Fine and forfeits | | | |
| Interest and rents | | | |
| Intergovernmental revenue (expenses) | | | |
| Other revenues | | | |
| TOTAL GENERAL REVENUES | | | |
| CHANGE IN NET ASSETS | | | |
| NET ASSETS, JULY 1 | | | |
| PRIOR PERIOD ADJUSTMENT | | | |
| NET ASSETS, JUNE 30 | | | |

See accompanying notes to financial statements.

| PRIMARY GOVERNMENT | | | COMPONENT |
|----------------------------|---------------------------------|---------------------|-----------------------------------------|
| GOVERNMENTAL ACTIVITIES | BUSINESS- TYPE ACTIVITIES | TOTAL | UNIT |
| | | | TAX INCREMENT FINANCING AUTHORITY |
| \$ (9,110) | \$ | \$ (9,110) | \$ |
| (252,099) | | (252,099) | |
| (216,509) | | (216,509) | |
| 23,289 | | 23,289 | |
| (48,360) | | (48,360) | |
| (85,826) | | (85,826) | |
| (165,596) | | (165,596) | |
| <u>(754,211)</u> | | <u>(754,211)</u> | |
| | | | |
| | (94,421) | (94,421) | |
| | (123,492) | (123,492) | |
| | <u>(217,913)</u> | <u>(217,913)</u> | |
| <u>(754,211)</u> | <u>(217,913)</u> | <u>(972,124)</u> | |
| | | | |
| | | | (49,227) |
| | | | |
| 460,438 | | 460,438 | 185,477 |
| 361,375 | | 361,375 | |
| 406 | | 406 | |
| 9,787 | 716 | 10,503 | |
| (38,600) | | (38,600) | |
| 102,154 | 95,699 | 197,853 | |
| <u>895,560</u> | <u>96,415</u> | <u>991,975</u> | <u>185,477</u> |
| 141,349 | (121,498) | 19,851 | 136,250 |
| 2,153,579 | 3,925,275 | 6,078,854 | (147,295) |
| 30,853 | (17,841) | 13,012 | |
| <u>\$ 2,325,781</u> | <u>\$ 3,785,936</u> | <u>\$ 6,111,717</u> | <u>\$ (11,045)</u> |

CITY OF POTTERVILLE, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2005

| | GENERAL FUND | MAJOR STREETS FUND |
|-----------------------------------------------|-------------------|--------------------------|
| ASSETS | | |
| Cash | \$ 21,889 | \$ 47,090 |
| Special assessments | | |
| Due from other governments | 77,580 | 65,598 |
| Due from component unit | 1,028 | |
| Due from other funds | 43,682 | |
| Bond discount | | |
| Prepaid insurance | 9,926 | |
| TOTAL ASSETS | \$ 154,105 | \$ 112,688 |
| LIABILITIES AND FUND BALANCE | | |
| LIABILITIES | | |
| Accounts payable | \$ 7,118 | \$ 534 |
| Pension payable | 867 | 366 |
| Accrued payroll | 11,416 | 810 |
| Due to other funds | | 2,678 |
| Other | 1,644 | |
| Deferred revenue | 1,500 | |
| TOTAL LIABILITIES | 22,545 | 4,388 |
| FUND BALANCE | | |
| Reserved for debt service | | |
| Reserved for park | | |
| Unreserved, undesignated | 131,560 | 108,300 |
| TOTAL FUND BALANCE | 131,560 | 108,300 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 154,105 | \$ 112,688 |

See accompanying notes to financial statements.

| LOCAL STREETS FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--------------------------|--------------------------------|--------------------------------|
| \$ 85,617 | \$ 133,750 | \$ 288,346 |
| 5,760 | 111,717 | 111,717 |
| 1,247 | 10,000 | 158,938 |
| | 1,706 | 1,028 |
| | 25,000 | 46,635 |
| | | 25,000 |
| | | 9,926 |
| \$ <u>92,624</u> | \$ <u>282,173</u> | \$ <u>641,590</u> |
| \$ 122 | \$ 1,426 | \$ 9,200 |
| 358 | 527 | 2,118 |
| 650 | 977 | 13,853 |
| 1,167 | 10,033 | 13,878 |
| | 111,717 | 1,644 |
| <u>2,297</u> | <u>124,680</u> | <u>113,217</u> |
| | 128,496 | 153,910 |
| | 5,054 | 128,496 |
| <u>90,327</u> | <u>23,943</u> | <u>5,054</u> |
| <u>90,327</u> | <u>157,493</u> | <u>354,130</u> |
| \$ <u>92,624</u> | \$ <u>282,173</u> | \$ <u>641,590</u> |

CITY OF POTTERVILLE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2005

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Total fund balances - governmental funds | \$ 487,680 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$4,908,272 and the accumulated depreciation is \$2,167,883 | 2,740,389 |
| Long term receivables are not available to pay current period expenditures and therefore are deferred in governmental funds | |
| Deferred revenue | 113,217 |
| An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. | 57,137 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. | |
| Long-term liabilities at year-end consist of: | |
| Bonds payable | (1,025,000) |
| Accrued interest | (26,081) |
| Contracts payable | (5,608) |
| Compensated absences | (15,953) |
| TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES | \$ <u>2,325,781</u> |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | GENERAL FUND | MAJOR STREETS FUND |
|------------------------------------------------------------------------------------------|-------------------|--------------------------|
| REVENUES | | |
| Taxes | \$ 460,438 | \$ |
| Licenses and permits | 4,270 | |
| State grants | 231,118 | 214,048 |
| Charges for services | | |
| Fines and forfeits | 406 | |
| Interest and rents | 982 | 2,578 |
| Other revenue | 60,576 | 1,555 |
| TOTAL REVENUES | <u>757,790</u> | <u>218,181</u> |
| EXPENDITURES | | |
| Legislative | 9,110 | |
| General government | 281,879 | |
| Public safety | 221,872 | |
| Public works | 38,393 | 323,237 |
| Recreation and culture | | |
| Debt service | | |
| Principal | | 5,391 |
| Interest and fiscal charges | | 440 |
| TOTAL EXPENDITURES | <u>551,254</u> | <u>329,068</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>206,536</u> | <u>(110,887)</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Bond proceeds | | |
| Operating transfers in | | |
| Operating transfers out | (214,000) | |
| Contributions from component unit | | 6,400 |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(214,000)</u> | <u>6,400</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | (7,464) | (104,487) |
| FUND BALANCE, JULY 1 | 129,682 | 212,787 |
| PRIOR PERIOD ADJUSTMENT | <u>9,342</u> | |
| FUND BALANCE , JUNE 30 | <u>\$ 131,560</u> | <u>\$ 108,300</u> |

See accompanying notes to financial statements.

| LOCAL STREETS FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--------------------------|--------------------------------|--------------------------------|
| \$ | \$ | \$ |
| 35,607 | 10,000 | 460,438 |
| | 32,768 | 4,270 |
| | | 490,773 |
| 1,682 | 4,545 | 32,768 |
| 1,209 | 128,536 | 406 |
| <u>38,498</u> | <u>175,849</u> | <u>9,787</u> |
| | | 191,876 |
| | | <u>1,190,318</u> |
| | | 9,110 |
| | | 281,879 |
| 27,473 | 91,558 | 221,872 |
| | 755,000 | 389,103 |
| | 69,732 | 91,558 |
| <u>27,473</u> | <u>916,290</u> | <u>760,391</u> |
| | | 70,172 |
| 11,025 | (740,441) | <u>1,824,085</u> |
| | | (633,767) |
| | 675,000 | 675,000 |
| | 164,000 | 164,000 |
| | 5,000 | (214,000) |
| | <u>844,000</u> | <u>11,400</u> |
| | | 636,400 |
| 11,025 | 103,559 | 2,633 |
| 79,302 | 50,264 | 472,035 |
| | 3,670 | 13,012 |
| <u>\$ 90,327</u> | <u>\$ 157,493</u> | <u>\$ 487,680</u> |

CITY OF POTTERVILLE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| Net changes in fund balances - total governmental funds | \$ 2,633 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. | |
| However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. | |
| Expenditures for capital assets | 273,493 |
| Less: current year depreciation | (165,596) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (89,722) |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments. | |
| Accrued interest | (15,654) |
| Bond proceeds | (675,000) |
| Principal payments | 760,391 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | |
| Change in long-term compensated absences | 29,351 |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. | |
| The net (expense) of the internal service funds is reported with governmental activities. | 21,453 |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ <u>141,349</u> |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

| | SPECIAL REVENUE FUND | DEBT SERVICE FUND STORM DRAIN SPECIAL ASSESSMENT BOND FUND |
|------------------------------------|-------------------------|------------------------------------------------------------------------------------|
| | PARK FUND | |
| ASSETS | | |
| Cash | \$ 200 | \$ 4,346 |
| Special assessments | | 49,575 |
| Due from other governments | 10,000 | |
| Due from other funds | | |
| Bond discount | 25,000 | |
| TOTAL ASSETS | \$ 35,200 | \$ 53,921 |
| LIABILITIES AND FUND BALANCE | | |
| LIABILITIES | | |
| Accounts payable | \$ 1,427 | \$ |
| Pension payable | 527 | |
| Accrued payroll | 977 | |
| Due to other funds | 8,326 | 1,706 |
| Deferred revenue | | 49,575 |
| TOTAL LIABILITIES | 11,257 | 51,281 |
| FUND BALANCE | | |
| Reserved for debt service | | 2,640 |
| Unreserved, undesignated | 23,943 | |
| TOTAL FUND BALANCE | 23,943 | 2,640 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 35,200 | \$ 53,921 |

See accompanying notes to financial statements.

| DEBT SERVICE FUND | PERMANENT FUND | |
|----------------------------------------------------------|----------------------------------------|---------------------------------------------|
| SUNSET HILLS SPECIAL ASSESSMENT BOND FUND | IMAGINATION STATION PARK FUND | TOTAL NON MAJOR GOVERNMENTAL FUNDS |
| \$ 124,150 | \$ 5,054 | \$ 133,750 |
| 62,142 | | 111,717 |
| 1,706 | | 10,000 |
| | | 1,706 |
| | | 25,000 |
| \$ <u>187,998</u> | \$ <u>5,054</u> | \$ <u>282,173</u> |
| | | |
| \$ | \$ | \$ 1,427 |
| | | 527 |
| | | 977 |
| | | 10,032 |
| 62,142 | | 111,717 |
| <u>62,142</u> | | <u>124,680</u> |
| | | |
| 125,856 | | 128,496 |
| | 5,054 | 28,997 |
| <u>125,856</u> | <u>5,054</u> | <u>157,493</u> |
| | | |
| \$ <u>187,998</u> | \$ <u>5,054</u> | \$ <u>282,173</u> |

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | <u>SPECIAL REVENUE FUND</u> | <u>DEBT SERVICE FUND</u> <u>STORM DRAIN SPECIAL ASSESSMENT BOND FUND</u> |
|------------------------------------------------------|---------------------------------|---------------------------------------------------------------------------------------------------------|
| | <u>PARK FUND</u> | |
| REVENUES | | |
| State grants | \$ 10,000 | \$ |
| Charges for services | 32,768 | |
| Interest and rents | 4,545 | |
| Other revenue | <u>732</u> | <u>3,958</u> |
| TOTAL REVENUES | <u>48,045</u> | <u>3,958</u> |
| EXPENDITURES | | |
| Recreation and culture | 91,558 | |
| Debt service | | |
| Principal | 700,000 | 25,000 |
| Interest and fiscal charges | <u>45,062</u> | <u>12,152</u> |
| TOTAL EXPENDITURES | <u>836,620</u> | <u>37,152</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(788,575)</u> | <u>(33,194)</u> |
| OTHER FINANCING SOURCES | | |
| Bond proceeds | 675,000 | |
| Operating transfers in | 132,000 | 32,000 |
| Contributions from component unit | <u>5,000</u> | <u></u> |
| TOTAL OTHER FINANCING SOURCES | <u>812,000</u> | <u>32,000</u> |
| NET CHANGE IN FUND BALANCE | 23,425 | (1,194) |
| FUND BALANCE, JULY 1 | <u>518</u> | <u>3,834</u> |
| PRIOR PERIOD ADJUSTMENT | <u></u> | <u></u> |
| FUND BALANCE , JUNE 30 | <u>\$ 23,943</u> | <u>\$ 2,640</u> |

See accompanying notes to financial statements.

| DEBT SERVICE FUND <u>SUNSET HILLS SPECIAL ASSESSMENT BOND FUND</u> | PERMANENT FUND <u>IMAGINATION STATION PARK FUND</u> | TOTAL NON MAJOR GOVERNMENTAL FUNDS |
|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------|
| \$ | \$ | \$ |
| 122,462 | 1,384 | 10,000 |
| <u>122,462</u> | <u>1,384</u> | 32,768 |
| | | 4,545 |
| | | <u>128,536</u> |
| | | 175,849 |
| | | 91,558 |
| 30,000 | | 755,000 |
| <u>12,518</u> | | <u>69,732</u> |
| <u>42,518</u> | | <u>916,290</u> |
| | | |
| <u>79,944</u> | <u>1,384</u> | <u>(740,441)</u> |
| | | |
| | | 675,000 |
| | | 164,000 |
| | | <u>5,000</u> |
| | | <u>844,000</u> |
| 79,944 | 1,384 | 103,559 |
| <u>45,912</u> | | <u>50,264</u> |
| | <u>3,670</u> | <u>3,670</u> |
| \$ <u>125,856</u> | \$ <u>5,054</u> | \$ <u>157,493</u> |

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2005

| | <u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u> | | | GOVERNMENTAL |
|----------------------------------------------------|----------------------------------------------------|-------------------------|-------------------------|-----------------------|
| | <u>MAJOR FUNDS</u> | | | ACTIVITIES - |
| | WATER | SEWAGE | | INTERNAL |
| | SUPPLY | DISPOSAL | TOTALS | SERVICE |
| | | | | FUND |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash | \$ 293,893 | \$ 197,208 | \$ 491,101 | \$ 11,109 |
| Receivables | | | | |
| Accounts | 21,904 | 17,847 | 39,751 | |
| TOTAL CURRENT ASSETS | <u>315,797</u> | <u>215,055</u> | <u>530,852</u> | <u>11,109</u> |
| RESTRICTED ASSETS | | | | |
| Cash | <u>7,260</u> | <u>49,792</u> | <u>57,052</u> | |
| PROPERTY, PLANT AND EQUIPMENT | | | | |
| Land | 23,713 | 236,363 | 260,076 | |
| Treatment system | | 83,377 | 83,377 | |
| Collection lines | | 3,825,538 | 3,825,538 | |
| Mains and connections | 846,958 | | 846,958 | |
| Vehicles | | | | 167,042 |
| Wells and controls | 822,582 | | 822,582 | |
| Machinery and equipment | <u>718,815</u> | <u>12,427</u> | <u>731,242</u> | <u>148,694</u> |
| | 2,412,068 | 4,157,705 | 6,569,773 | 315,736 |
| Less: accumulated depreciation | <u>(485,609)</u> | <u>(1,848,542)</u> | <u>(2,334,151)</u> | <u>(212,050)</u> |
| NET PROPERTY, PLANT AND EQUIPMENT | <u>1,926,459</u> | <u>2,309,163</u> | <u>4,235,622</u> | <u>103,686</u> |
| TOTAL ASSETS | <u>\$ 2,249,516</u> | <u>\$ 2,574,010</u> | <u>\$ 4,823,526</u> | <u>\$ 114,795</u> |

See accompanying notes to financial statements.

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | GOVERNMENTAL |
|----------------------------------------------------------------|---------------------------------------------|---------------------|---------------------|-------------------|
| | MAJOR FUNDS | | | ACTIVITIES - |
| | WATER | SEWAGE | | INTERNAL |
| | SUPPLY | DISPOSAL | TOTALS | SERVICE |
| | | | | FUND |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | \$ 2,100 | \$ 1,278 | \$ 3,378 | \$ 4,225 |
| Accrued payroll | 5,757 | 4,794 | 10,551 | 693 |
| Accrued compensated absences | 8,728 | 7,897 | 16,625 | 562 |
| Accrued interest payable | 8,293 | 2,675 | 10,968 | |
| Customer deposits payable | 7,260 | 7,260 | 14,520 | |
| Pension payable | 2,415 | 2,443 | 4,858 | 377 |
| Due to other funds | 922 | 768 | 1,690 | 111 |
| TOTAL CURRENT LIABILITIES | <u>35,475</u> | <u>27,115</u> | <u>62,590</u> | <u>5,968</u> |
| CURRENT LIABILITIES FROM RESTRICTED ASSETS | | | | |
| Revenue bonds | 15,000 | 18,000 | 33,000 | |
| Equipment contracts | | | | 19,483 |
| TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | <u>15,000</u> | <u>18,000</u> | <u>33,000</u> | <u>19,483</u> |
| LONG-TERM LIABILITIES | | | | |
| Revenue bonds | 655,000 | 287,000 | 942,000 | |
| Equipment contracts | | | | 32,207 |
| TOTAL LONG-TERM LIABILITIES | <u>655,000</u> | <u>287,000</u> | <u>942,000</u> | <u>32,207</u> |
| TOTAL LIABILITIES | <u>705,475</u> | <u>332,115</u> | <u>1,037,590</u> | <u>57,658</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 1,257,025 | 2,004,163 | 3,261,188 | 51,996 |
| Unrestricted | 287,016 | 237,732 | 524,748 | 5,141 |
| TOTAL NET ASSETS | <u>1,544,041</u> | <u>2,241,895</u> | <u>3,785,936</u> | <u>57,137</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>2,249,516</u> | \$ <u>2,574,010</u> | \$ <u>4,823,526</u> | \$ <u>114,795</u> |

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | GOVERNMENTAL |
|---------------------------------|---------------------------------------------|---------------------|---------------------|------------------|
| | MAJOR FUNDS | | | ACTIVITIES - |
| | WATER | SEWAGE | | INTERNAL |
| | SUPPLY | DISPOSAL | TOTALS | SERVICE |
| | | | | FUND |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 200,445 | \$ 171,272 | \$ 371,717 | \$ 49,904 |
| Other revenue | 8,108 | 8,591 | 16,699 | 4,339 |
| TOTAL OPERATING REVENUES | <u>208,553</u> | <u>179,863</u> | <u>388,416</u> | <u>54,243</u> |
| OPERATING EXPENSES | | | | |
| Personal services | 119,876 | 123,368 | 243,244 | 9,865 |
| Employee benefits | 21,046 | 22,292 | 43,338 | 4,157 |
| Professional services | 11,812 | 7,952 | 19,764 | |
| Office supplies and expense | 14,007 | 6,462 | 20,469 | 5,348 |
| Telephone and telegraph | 188 | 482 | 670 | |
| Repairs and maintenance | 12,572 | 5,349 | 17,921 | 27,188 |
| Insurance | 2,650 | 6,800 | 9,450 | 7,211 |
| Utilities | 15,053 | 12,333 | 27,386 | 5,208 |
| Depreciation | 46,805 | 81,066 | 127,871 | 20,602 |
| Rentals | 14,174 | 10,831 | 25,005 | |
| Other | 3,000 | 1,779 | 4,779 | 1,475 |
| TOTAL OPERATING EXPENSES | <u>261,183</u> | <u>278,714</u> | <u>539,897</u> | <u>81,054</u> |
| OPERATING LOSS | <u>(52,630)</u> | <u>(98,851)</u> | <u>(151,481)</u> | <u>(26,811)</u> |
| NONOPERATING REVENUES | | | | |
| (EXPENSE) | | | | |
| Interest income | | 716 | 716 | |
| Hook-up fees | 44,500 | 34,500 | 79,000 | |
| Transfers in | | | | 50,000 |
| Interest and fiscal charges | (33,683) | (16,050) | (49,733) | (1,736) |
| TOTAL NONOPERATING | | | | |
| REVENUES (EXPENSES) | <u>10,817</u> | <u>19,166</u> | <u>29,983</u> | <u>48,264</u> |
| NET INCOME (LOSS) | <u>(41,813)</u> | <u>(79,685)</u> | <u>(121,498)</u> | <u>21,453</u> |
| NET ASSETS, JULY 1 | <u>1,585,854</u> | <u>2,321,580</u> | <u>3,907,434</u> | <u>35,684</u> |
| NET ASSETS, JUNE 30 | <u>\$ 1,544,041</u> | <u>\$ 2,241,895</u> | <u>\$ 3,785,936</u> | <u>\$ 57,137</u> |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

| | <u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u> | | | GOVERNMENTAL |
|------------------------------------|----------------------------------------------------|-------------------|-------------------|------------------|
| | <u>MAJOR FUNDS</u> | | | ACTIVITIES - |
| | WATER | SEWAGE | | INTERNAL |
| | SUPPLY | DISPOSAL | TOTALS | SERVICE |
| | | | | FUND |
| CASH FLOWS FROM | | | | |
| OPERATING ACTIVITIES | | | | |
| Receipts from customers and users | \$ 218,295 | \$ 192,469 | \$ 410,764 | \$ 78,263 |
| Payments to suppliers | (98,917) | (78,293) | (177,210) | (58,861) |
| Payments to employees | (104,464) | (110,187) | (214,651) | (9,393) |
| NET CASH PROVIDED BY | | | | |
| OPERATING ACTIVITIES | <u>14,914</u> | <u>3,989</u> | <u>18,903</u> | <u>10,009</u> |
| CASH FLOWS FROM NON-CAPITAL | | | | |
| FINANCING ACTIVITIES | | | | |
| Operating transfers in | | | | 50,000 |
| Restricted cash | (7,260) | (7,977) | (15,237) | |
| Customer deposits payable | 840 | 780 | 1,620 | |
| NET CASH PROVIDED BY | | | | |
| (USED IN) FINANCING | <u>(6,420)</u> | <u>(7,197)</u> | <u>(13,617)</u> | <u>50,000</u> |
| CASH FLOWS FROM CAPITAL AND | | | | |
| AND RELATED FINANCING | | | | |
| ACTIVITIES | | | | |
| Proceeds from hook up fees | 44,500 | 34,500 | 79,000 | |
| Acquisition of capital assets | (16,990) | | (16,990) | (12,737) |
| Principal paid on bonds | (15,000) | (16,000) | (31,000) | (24,234) |
| Interest paid on bonds | (33,945) | (16,050) | (49,995) | (1,736) |
| NET CASH PROVIDED BY | | | | |
| (USED IN) CAPITAL AND | <u>(21,435)</u> | <u>2,450</u> | <u>(18,985)</u> | <u>(38,707)</u> |
| CASH FLOWS FROM INVESTING | | | | |
| ACTIVITIES | | | | |
| Interest received | | 716 | 716 | |
| NET INCREASE (DECREASE) | | | | |
| IN CASH AND CASH | (12,941) | (42) | (12,983) | 21,302 |
| EQUIVALENTS, | | | | |
| JULY 1 | <u>306,834</u> | <u>197,250</u> | <u>504,084</u> | <u>(10,193)</u> |
| CASH AND CASH EQUIVALENTS, | | | | |
| JUNE 30 | <u>\$ 293,893</u> | <u>\$ 197,208</u> | <u>\$ 491,101</u> | <u>\$ 11,109</u> |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS - Concluded

FOR THE YEAR ENDED JUNE 30, 2005

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | GOVERNMENTAL |
|--------------------------------------------|---------------------------------------------|-----------------|------------------|------------------|
| | MAJOR FUNDS | | | ACTIVITIES - |
| | WATER | SEWAGE | | INTERNAL |
| | SUPPLY | DISPOSAL | TOTALS | SERVICE |
| | | | | FUND |
| RECONCILIATION OF OPERATING | | | | |
| INCOME TO NET CASH | | | | |
| PROVIDED BY (USED IN) | | | | |
| OPERATING ACTIVITIES | | | | |
| Operating loss | \$ (52,630) | \$ (98,851) | \$ (151,481) | \$ (26,811) |
| ADJUSTMENTS TO RECONCILE | | | | |
| OPERATING LOSS TO NET | | | | |
| CASH PROVIDED BY | | | | |
| OPERATING ACTIVITIES | | | | |
| Depreciation | 46,805 | 81,066 | 127,871 | 20,602 |
| (Increase) decrease in current assets | | | | |
| Accounts receivable | (258) | (7,379) | (7,637) | |
| Due from other funds | 10,000 | 19,985 | 29,985 | 24,020 |
| Increase (decrease) in current liabilities | | | | |
| Accounts payable | (3,222) | (4,291) | (7,513) | 1,367 |
| Accrued payroll | 5,757 | 4,794 | 10,551 | 693 |
| Accrued compensated absences | 8,728 | 7,897 | 16,625 | 562 |
| Due to other funds | (266) | 768 | 502 | (10,424) |
| TOTAL ADJUSTMENTS | <u>67,544</u> | <u>102,840</u> | <u>170,384</u> | <u>36,820</u> |
| NET CASH PROVIDED BY | | | | |
| OPERATING ACTIVITIES | \$ <u>14,914</u> | \$ <u>3,989</u> | \$ <u>18,903</u> | \$ <u>10,009</u> |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2005

ASSETS

| | |
|-------------------------|------------------|
| Cash | \$ 37,419 |
| Due from component unit | <u>10,338</u> |
| NET ASSETS | <u>\$ 47,757</u> |

LIABILITIES

| | |
|----------------------------------|------------------|
| Due to other funds | \$ 17,935 |
| Due to other governmental units | <u>29,822</u> |
| TOTAL LIABILITIES | <u>47,757</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 47,757</u> |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Potterville, Michigan, was incorporated December 12, 1962, and adopted its current charter on November 11, 1988. Located in Eaton County, the City operates under a Council-Manager form of government and provides the following services: public safety (police protection), highways and streets, recreation, public improvements, planning and zoning, and general administrative services. In addition, the City operates two major enterprise activities; a water supply system and a sewage collection and treatment system. The City's financial statements include the accountings of all City operations.

The financial statements of the City of Potterville, Michigan (government) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

As required by U.S. generally accepted accounting principles these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The discretely presented component unit has a June 30 year end.

Discretely Presented Component Units

Tax Increment Financing Authority

On July 11, 1984, the City of Potterville established a Tax Increment Financing Authority for the purpose of promoting growth and development. The TIFA is legally separate from the primary government. The City Council appoints the 3-member TIFA board and approves their budget.

Complete financial statements of the TIFA can be obtained from their administrative offices or from the City Clerk's office at City Hall.

Administrative Offices

City of Potterville Tax Increment Financing Authority
319 North Nelson
Potterville, MI 48876

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

A. Reporting Entity – Concluded

Discretely Presented Component Units – Concluded

Based on the foregoing criteria, the financial statements of the following organizations are excluded from the accompanying financial statements:

Joint Ventures

Potterville-Benton Township Fire Department – The City of Potterville and the Township of Benton entered into an interlocal agreement for the purpose of providing fire and emergency services to respective units. Both local governmental units have an undivided 50% joint ownership of the Fire Department and its operation. The fire board consists of six members, three appointed by the City and three appointed by the Township. The City and Township both approve the annual Fire Department budget. During the fiscal year ended June 30, 2005, the City of Potterville contributed \$52,047 to the Fire Department.

Complete financial statements of the joint venture can be obtained by writing to:

Potterville-Benton Township Fire Department
4713 Hartel Road
Potterville, MI 48876

Related Organizations

Benton Township-Potterville District Library – The district library is a legally separate organization established to provide library services to residents of Benton Township and the City of Potterville. An elected 7-member board governs the district library. The district library is supported, in part, by a millage passed November 4, 1994. The tax of 1/5 mill applies to all taxable property in the library district, which consists of Benton Township and the City of Potterville. The district library board is empowered to propose and levy upon approval of the electors a tax for the support of the district library. It may also borrow money and issue bonds pursuant to the District Library Financing Act 265 of 1988 (MCL 397.287 et. Seq.). The district library indemnifies and holds harmless the participating municipalities from all claims and liabilities. The City and Township do not hold title to any of the district library's assets, nor does it have rights to any surpluses or responsibility to finance any deficits of the district library.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the City are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The City of Potterville reports the following major governmental funds:

General Fund

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund

The Major Street Fund is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state truck lines.

Local Street Fund

The Local Street Fund receives all local street money paid to the City by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

The City of Potterville reports the following major proprietary funds:

Water Fund

The Water Fund records financial activity of the water system which provides water to customers.

Sewer Fund

The Sewer Fund records financial activity of the sewage disposal services to its customers.

Additionally, the City of Potterville reports the following fund types:

Park Fund

The Park Fund accounts for revenue sources that are legally restricted to expenditure for parks and recreation.

Debt Service Funds

The Debt Service Funds account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Internal Service Funds

The Internal Service Funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Concluded

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved.

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, sewer fund, and the City's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Equity

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

Investments

The City's investment policy is in compliance with state law and authorizes the City to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency obligations, United States Treasury bills and bonds, banker acceptances, federal agency instruments, money market funds and commercial paper. Investments in commercial paper must be rated in one of the two highest rating categories by Standard and Poor's or Moody's and are limited to fifty percent of a funds portfolio in accordance with state statutes. Investments are stated at fair value which is determined using selected bases. Securities traded on a national exchange are valued at the last reported sales price. Managed funds not listed on an established market are reported at fair value as determined by the respective fund managers based on quoted prices of underlying securities.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balance outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City bills and collects its own property taxes and also taxes for the County and school districts. Collections of the County and school taxes and remittance of them to the taxing units are accounted for in the Current Tax Collection Fund. County and school taxes are billed and due December 1, and become delinquent after February 14. City property tax revenues are recognized when levied thus none of the 2004 summer roll has been recognized in these statements. City taxes are billed and due July 1, and become delinquent after August 10.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Equity - Continued

Restricted Assets

The restricted assets of the Enterprise Funds consist of bond and interest redemption, bond reserve and system improvement deposits. These have been set up in keeping with the bond indenture agreements.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories held by the General, Water and Internal Service Funds are not considered material and are not included in these financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

D. Assets, Liabilities and Equity - Continued

Capital Assets - Concluded

Property, plant and equipment are depreciated in the proprietary funds of the government using the straight-line method over the following estimated useful lives:

| ASSETS | USEFUL LIFE |
|------------------------------|----------------|
| Buildings | 20-50 years |
| Public domain infrastructure | 20-30 years |
| Mains and connections | 20-100 years |
| Equipment | 10-20 years |
| Intangibles | 3-5 years |

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for nonvesting, unpaid accumulated sick leave. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The City has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortizations of premiums, discounts, and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2003.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded

D. Assets, Liabilities and Equity - Concluded

Long-Term Obligations – Concluded

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: BUDGETS AND BUDGETARY ACCOUNTING

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and capital projects funds. All annual appropriations lapse at fiscal year-end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 2: BUDGETS AND BUDGETARY ACCOUNTING – Concluded

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. All transfers of budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed appropriation at the total fund level.
5. Budgets for the General, Special Revenue and Capital Projects Funds are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council from time to time throughout the year. The City amended its budget once during the current fiscal year.
6. Budget appropriations lapse at the end of the fiscal year for all funds, except for certain capital projects which are adopted on a per project basis.

Funds with expenditures in excess of appropriations were as follows:

| | AMENDED BUDGET | ACTUAL | VARIANCE |
|----------------------------------------|-------------------|------------|-----------|
| General Fund | | | |
| General government | \$ 281,232 | \$ 281,879 | \$(647) |
| Special Revenue | | | |
| Major streets | 324,105 | 329,068 | (4,963) |
| Storm drain special assessment fund | 35,450 | 37,152 | (1,702) |

NOTE 3: CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 3: CUSTODIAL CREDIT RISK - DEPOSITS – Concluded

The City's deposits are owned by several of the City's funds. At year end, the carrying amount of the primary government's deposits and cash on hand was \$924,194 and the bank balance was \$936,137. Of the bank balance, \$142,441 was covered by federal depository insurance, and \$793,696 was uninsured and uncollateralized. The government does not have a deposit policy for credit risk.

A reconciliation of cash and investments follows:

| | PRIMARY GOVERNMENT | COMPONENT UNITS |
|---------------------------------------|--------------------------|--------------------------|
| Cash on hand | \$ 300 | \$ |
| Carrying amount of deposits | 866,842 | 398,433 |
| Investments – Certificates of Deposit | | 74,761 |
| Restricted cash | <u>57,052</u> | <u> </u> |
| TOTAL | \$ <u>924,194</u> | \$ <u>473,194</u> |
| Government-Wide | | |
| Statement of Net Assets | | |
| Cash | \$ 790,556 | \$ 398,433 |
| Restricted cash | 57,052 | |
| Investments – Certificates of Deposit | | 74,761 |
| Statement of Fiduciary Net Assets | | |
| Cash | <u>76,586</u> | <u> </u> |
| TOTAL | \$ <u>924,194</u> | \$ <u>473,194</u> |

As of June 30, 2005, \$373,264 of the component unit's bank balances and investments in certificates of deposit were uninsured and exposed to custodial credit risk. The component unit does not have a deposit policy for custodial credit risk.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 4: RECEIVABLES

Receivables as of year end for the government's individual major funds and nonmajor, internal service, and fiduciary funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

| | GENERAL FUND | SUNSET HILLS SPECIAL ASSESSMENT | STORM DRAIN SPECIAL ASSESSMENT | WATER FUND | SEWER FUND | TOTAL |
|--------------|------------------------|------------------------------------------|-----------------------------------------|-------------------------|-------------------------|--------------------------|
| Receivables | | | | | | |
| Accounts | \$ | \$ | \$ | \$ 21,904 | \$ 17,847 | \$ 39,751 |
| Special | | | | | | |
| Assessments | | | | | | |
| Deferred | | 62,142 | 49,575 | | | 111,717 |
| Other | <u>1,500</u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u>1,500</u> |
| TOTAL | \$ <u>1,500</u> | \$ <u>62,142</u> | \$ <u>49,575</u> | \$ <u>21,904</u> | \$ <u>17,847</u> | \$ <u>152,968</u> |

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

| | DEFERRED REVENUE | |
|--------------------------------|--------------------------|-----------------------------|
| | UNAVAILABLE | UNEARNED |
| General Fund | \$ 1,500 | \$ |
| Special Assessments Receivable | | |
| (Debt Service Funds) | <u>111,717</u> | <u> </u> |
| | \$ <u>113,217</u> | \$ <u> </u> |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 5: CAPITAL ASSETS

| | BEGINNING BALANCE | INCREASES | DECREASES | ENDING BALANCE |
|---------------------------------------------------|----------------------|-------------------|-----------|---------------------|
| PRIMARY GOVERNMENT | | | | |
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ <u>223,263</u> | \$ _____ | \$ _____ | \$ <u>223,263</u> |
| Capital assets, being depreciated | | | | |
| Buildings | 531,027 | | | 531,027 |
| Land improvements | 1,151,225 | | | 1,151,225 |
| Paved roads | 2,661,494 | | | 2,661,494 |
| Unpaved roads | 67,770 | | | 67,770 |
| Bike path | _____ | <u>273,493</u> | _____ | <u>273,493</u> |
| Total Capital Assets being depreciated | <u>4,411,516</u> | <u>273,493</u> | _____ | <u>4,685,009</u> |
| Less: accumulated depreciation | | | | |
| Buildings | 58,240 | 10,620 | | 68,860 |
| Land improvements | 819,372 | 57,562 | | 876,934 |
| Paved roads | 1,099,826 | 88,716 | | 1,188,542 |
| Unpaved roads | 24,849 | 2,259 | | 27,108 |
| Bike path | _____ | <u>6,439</u> | _____ | <u>6,439</u> |
| Total accumulated depreciation | <u>2,002,287</u> | <u>165,596</u> | _____ | <u>2,167,883</u> |
| Net Capital Assets being depreciated | \$ <u>2,409,229</u> | \$ <u>107,897</u> | \$ _____ | \$ <u>2,517,126</u> |
| Net Governmental Activities Capital Assets | \$ <u>2,632,492</u> | \$ <u>107,897</u> | \$ _____ | <u>2,740,389</u> |
| Internal Service Fund Net Capital Assets | | | | <u>103,685</u> |
| Net Capital Assets per Statement of Net Assets | | | | \$ <u>2,844,074</u> |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 5: **CAPITAL ASSETS** – Continued

| | BEGINNING BALANCE | INCREASES | DECREASES | ENDING BALANCE |
|-------------------------------------------|----------------------|----------------------|-----------|---------------------|
| PRIMARY GOVERNMENT – Continued | | | | |
| BUSINESS-TYPE ACTIVITIES | | | | |
| SEWER | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ <u>236,363</u> | \$ _____ | \$ _____ | \$ <u>236,363</u> |
| Capital assets, being depreciated | | | | |
| Machinery and equipment | 12,427 | | | 12,427 |
| Sewer connection lines | 459,697 | | | 459,697 |
| Treatment system | <u>3,449,218</u> | _____ | _____ | <u>3,449,218</u> |
| Total capital assets being depreciated | <u>3,921,342</u> | _____ | _____ | <u>3,921,342</u> |
| Less: accumulated depreciation | | | | |
| Machinery and equipment | 11,933 | 229 | | 12,162 |
| Sewer connection lines | 288,111 | 9,194 | | 297,305 |
| Treatment system | <u>1,467,433</u> | <u>71,642</u> | _____ | <u>1,539,075</u> |
| Total accumulated depreciation | <u>1,767,477</u> | <u>81,065</u> | _____ | <u>1,848,542</u> |
| Net capital assets being depreciated | <u>2,153,865</u> | (<u>81,065</u>) | _____ | <u>2,072,800</u> |
| Net Sewer Capital Assets | \$ <u>2,390,228</u> | \$ (<u>81,065</u>) | \$ _____ | \$ <u>2,309,163</u> |
| WATER | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ <u>23,713</u> | \$ _____ | \$ _____ | \$ <u>23,713</u> |
| Capital assets, being depreciated | | | | |
| Machinery and equipment | 718,815 | | | 718,815 |
| Mains and connections | 846,958 | 16,990 | | 863,948 |
| Wells and structures | <u>805,592</u> | _____ | _____ | <u>805,592</u> |
| Total capital assets being depreciated | <u>2,371,365</u> | <u>16,990</u> | _____ | <u>2,388,355</u> |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 5: **CAPITAL ASSETS - Concluded**

| | BEGINNING BALANCE | INCREASES | DECREASES | ENDING BALANCE |
|---------------------------------------------|----------------------|-----------------------|-------------------|---------------------|
| BUSINESS-TYPE ACTIVITIES – Concluded | | | | |
| WATER – Concluded | | | | |
| Less: accumulated depreciation | | | | |
| Machinery and equipment | \$ 197,521 | \$ 13,868 | \$ | \$ 211,389 |
| Mains and connections | 232,146 | 15,827 | | 247,973 |
| Wells and structures | <u>9,137</u> | <u>17,110</u> | <u> </u> | <u>26,247</u> |
| Total accumulated depreciation | <u>438,804</u> | <u>46,805</u> | <u> </u> | <u>485,609</u> |
| Total capital assets being depreciated, net | <u>1,932,561</u> | <u>(29,815)</u> | <u> </u> | <u>1,902,746</u> |
| Water capital assets, net | <u>\$ 1,956,274</u> | <u>\$ (29,815)</u> | <u>\$</u> | <u>\$ 1,926,459</u> |
| Total capital assets, net | | | | |
| Business-type activities | <u>\$ 4,346,502</u> | <u>\$ (110,880)</u> | <u>\$</u> | <u>\$ 4,235,622</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|-------------------------------------------------------|-------------------|
| Governmental activities | |
| Unallocated depreciation | \$ <u>165,596</u> |
| Business-type activities | |
| Sewer | \$ 81,066 |
| Water | <u>46,805</u> |
| Total depreciation expense – business-type activities | \$ <u>127,871</u> |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 6: INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances at June 30, 2005 were:

| FUND | INTERFUND RECEIVABLES DUE FROM'S | | INTERFUND PAYABLES DUE TO'S |
|---------------------------|----------------------------------------|---------------------|-----------------------------------|
| PRIMARY GOVERNMENT | | | |
| General fund | \$ 36,540 | Major streets | \$ 2,548 |
| | | Local streets | 1,063 |
| | | Special tax fund | 17,673 |
| | | Delinquent tax fund | 263 |
| | | TIFA | 1,028 |
| | | Payroll fund | <u>13,965</u> |
| Subtotal | <u>36,540</u> | Subtotal | <u>36,540</u> |
| General fund | <u>8,170</u> | Park fund | <u>8,170</u> |
| Local street fund | <u>1,247</u> | Payroll fund | <u>1,247</u> |
| Payroll fund | 2,087 | Major streets | 130 |
| | | Park | 156 |
| | | Sewer | 768 |
| | | Water | 922 |
| | | Equipment pool | <u>111</u> |
| Subtotal | <u>2,087</u> | Subtotal | <u>2,087</u> |
| Sunset Hills | <u>1,706</u> | Storm drain | <u>1,706</u> |
| Special tax fund | <u>10,338</u> | TIFA | <u>10,338</u> |
| TOTAL | <u>\$ 60,088</u> | TOTAL | <u>\$ 60,088</u> |

All interfund loans were made for operating activities.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS -- Continued
JUNE 30, 2005

NOTE 7: CHANGES IN LONG-TERM DEBT

The following is a summary of debt transactions of the City of Potterville for the year ended June 30, 2005:

| | GENERAL OBLIGATION BONDS | OTHER DEBT | COMPENSATED ABSENCES | TOTAL |
|--------------------------------------|--------------------------------|----------------------|-------------------------|-------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Debt payable at July 1, 2004 | \$ 1,105,000 | \$ 46,893 | \$ 45,304 | \$ 1,197,197 |
| Debt retired | (755,000) | (29,625) | (28,790) | (813,415) |
| New debt issued | <u>675,000</u> | <u>40,030</u> | <u> </u> | <u>715,030</u> |
| DEBT PAYABLE AT JUNE 30, 2005 | <u>\$ 1,025,000</u> | <u>\$ 57,298</u> | <u>\$ 16,514</u> | <u>\$ 1,098,812</u> |

Debt payable at June 30, 2005 is comprised of the following individual issues:

GOVERNMENTAL ACTIVITIES
GENERAL OBLIGATION

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| \$120,000 1991 Series A, Special Assessment Bonds, due in annual installments at 7.0% to 7.2% interest, payable only from special assessments. | \$ 40,000 |
| \$330,000 1991 Series B, Special Assessment Bonds (Limited Tax General Obligation), due in annual installments at 7.0% to 7.2% interest. | 100,000 |
| \$400,000 Sunset Hills Special Assessment Bonds, due in annual installments at 5.40% to 5.45% interest, payable from special assessments. | 210,000 |
| \$675,000 2005 City of Potterville refunding issue, Building Authority, due in annual installments at 4.35% interest. | 675,000 |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Continued

OTHER DEBT

COMPENSATED ABSENCES

Vested sick and vacation pay owed
to City employees under various
contracts and agreements (this debt
is payable from the General Fund and
various Special Revenue Funds) 16,514

NOTE PAYABLE – MICHIGAN DEPARTMENT
OF TRANSPORTATION

\$35,000 note payable to the Michigan
Department of Transportation,
unsecured, due April 1, 2006,
interest at 4.00%. 5,608

LEASE PURCHASE AGREEMENT –
GMC 1-1/2 TON PICKUP

\$47,588 Lease Purchase Agreement for a
GMC 1-1/2 ton pick up truck at 5.0%
interest. \$ 25,003

LEASE PURCHASE AGREEMENT –
JOHN DEERE LOADER TRACTOR

\$40,030 Lease Purchase Agreement for a
John Deere Loader tractor due in
annual installments at 0% interest. 26,687

TOTAL GOVERNMENTAL ACTIVITIES **\$ 1,098,812**

The annual requirements to amortize debt outstanding other than vested sick and vacation pay as of June 30, 2005 are as follows:

| | GENERAL OBLIGATION BONDS | OTHER DEBT | TOTAL |
|----------------------|--------------------------------|---------------|------------|
| YEAR ENDING JUNE 30, | | | |
| 2006 Principal | \$ 110,000 | \$ 25,091 | \$ 135,091 |
| Interest | 48,784 | 1,335 | 50,119 |
| Total | 158,784 | 26,426 | 185,210 |
| 2007 Principal | 110,000 | 19,797 | 129,797 |
| Interest | 43,000 | 797 | 43,797 |
| Total | 153,000 | 20,594 | 173,594 |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 7: CHANGES IN LONG-TERM DEBT – Continued

| | GENERAL OBLIGATION BONDS | OTHER DEBT | TOTAL |
|----------------|--------------------------------|---------------|------------|
| 2008 Principal | \$ 120,000 | \$ 6,784 | \$ 126,784 |
| Interest | 37,097 | 466 | 37,563 |
| Total | 157,097 | 7,250 | 164,347 |
| 2009 Principal | 130,000 | 5,626 | 135,626 |
| Interest | 30,488 | 123 | 30,611 |
| Total | 160,488 | 5,749 | 166,237 |
| 2010 Principal | 130,000 | | 130,000 |
| Interest | 23,648 | | 23,648 |
| Total | 153,648 | | 153,648 |
| 2011 Principal | 100,000 | | 100,000 |
| Interest | 16,808 | | 16,808 |
| Total | 116,808 | | 116,808 |
| 2012 Principal | 105,000 | | 105,000 |
| Interest | 12,019 | | 12,019 |
| Total | 117,019 | | 117,019 |
| 2013 Principal | 80,000 | | 80,000 |
| Interest | 7,830 | | 7,830 |
| Total | 87,830 | | 87,830 |
| Thereafter | | | |
| Principal | 140,000 | | 140,000 |
| Interest | 5,437 | | 5,437 |
| Total | 145,437 | | 145,437 |
| TOTAL | | | |
| Principal | 1,025,000 | 57,298 | 1,082,298 |
| Interest | 225,111 | 2,721 | 227,832 |
| Total | 1,250,111 | 60,019 | 1,310,130 |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Continued

| | GENERAL OBLIGATION BONDS | REVENUE BONDS | TOTAL |
|----------------------------------|--------------------------------|-------------------|-------------------|
| BUSINESS-TYPE ACTIVITIES | | | |
| Debt payable at July 1, 2004 | \$ 685,000 | \$ 321,000 | \$ 1,006,000 |
| Debt retired | (15,000) | (16,000) | (31,000) |
| DEBT PAYABLE AT JUNE 30, 2005 | <u>\$ 670,000</u> | <u>\$ 305,000</u> | <u>\$ 975,000</u> |

| | |
|----------------------------------------------------------------------------------------------------------------------------|-------------------|
| BUSINESS-TYPE ACTIVITIES | |
| GENERAL OBLIGATION | |
| \$700,000 2002 Series, General Obligation Limited Tax Bonds, due in annual installments at 4.2% to 7.0% interest. | \$ 670,000 |
| REVENUE BONDS | |
| \$551,000 1979 Series, Sewage Disposal System Revenue Bonds, due in annual installments at 5.0% interest. | <u>305,000</u> |
| TOTAL BUSINESS-TYPE ACTIVITIES | <u>\$ 975,000</u> |

The annual requirements to amortize all debt outstanding for the business-type activities as of June 30, 2005 are as follows:

| YEAR ENDING JUNE 30, | GENERAL OBLIGATION BONDS | REVENUE BONDS | TOTAL |
|----------------------|--------------------------------|------------------|-----------|
| 2006 Principal | \$ 15,000 | \$ 18,000 | \$ 33,000 |
| Interest | 32,645 | 15,250 | 47,895 |
| Total | 47,645 | 33,250 | 80,895 |
| 2007 Principal | 20,000 | 18,000 | 38,000 |
| Interest | 31,420 | 14,350 | 45,770 |
| Total | 51,420 | 32,350 | 83,770 |
| 2008 Principal | 20,000 | 20,000 | 40,000 |
| Interest | 30,020 | 13,450 | 43,470 |
| Total | 50,020 | 33,450 | 83,470 |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Continued

| | GENERAL OBLIGATION BONDS | REVENUE BONDS | TOTAL |
|----------------|--------------------------------|------------------|------------|
| 2009 Principal | \$ 20,000 | \$ 20,000 | \$ 40,000 |
| Interest | 28,620 | 12,450 | 41,070 |
| Total | 48,620 | 32,450 | 81,070 |
| 2010 Principal | 25,000 | 20,000 | 45,000 |
| Interest | 27,045 | 11,450 | 38,495 |
| Total | 52,045 | 31,450 | 83,495 |
| 2011 – 2015 | | | |
| Principal | 155,000 | 123,000 | 278,000 |
| Interest | 107,810 | 40,450 | 148,260 |
| Total | 262,810 | 163,450 | 426,260 |
| 2016 – 2020 | | | |
| Principal | 235,000 | 86,000 | 321,000 |
| Interest | 63,945 | 8,800 | 72,745 |
| Total | 298,945 | 94,800 | 393,745 |
| 2021 – 2024 | | | |
| Principal | \$ 180,000 | \$ | \$ 180,000 |
| Interest | 11,760 | | 11,760 |
| Total | 191,760 | | 191,760 |
| TOTAL | | | |
| Principal | 670,000 | 305,000 | 975,000 |
| Interest | 333,265 | 116,200 | 449,465 |
| Total | 1,003,265 | 421,200 | 1,424,465 |

The following is a summary of general obligation bond transactions of the component unit for the year ended June 30, 2005

| | GENERAL OBLIGATION BONDS |
|------------------------------|--------------------------------|
| Debt payable at July 1, 2004 | \$ 540,000 |
| Debt retired | (<u>45,000</u>) |
| TOTAL | \$ <u>495,000</u> |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 7: CHANGES IN LONG-TERM DEBT – Concluded

The General obligation bond balance as of June 30, 2005, is as follows:

| | |
|----------------------------------------------------------------------------------------------------------------------|-------------------|
| \$270,000, 1988 Series, Limited Tax Development Bonds, due in annual installments at 8.5% to 9.0% interest. | \$ 100,000 |
| \$400,000, 2004 Series, Tax Increment Revenue Bonds, due in annual installments at 2.0% to 4.0% interest. | <u>395,000</u> |
| | <u>\$ 495,000</u> |

The annual principal and interest requirement to amortize notes payable, capital lease obligations, land contracts, and general obligation bonds as of June 30, 2005, is as follows:

**YEAR ENDED
JUNE 30,**

| | | |
|-------------|-----------|-----------|
| 2006 | Principal | \$ 50,000 |
| | Interest | 20,555 |
| | Total | 70,555 |
| 2007 | Principal | 60,000 |
| | Interest | 17,880 |
| | Total | 77,880 |
| 2008 | Principal | 55,000 |
| | Interest | 14,943 |
| | Total | 69,943 |
| 2009 | Principal | 60,000 |
| | Interest | 11,725 |
| | Total | 71,725 |
| 2010 | Principal | 35,000 |
| | Interest | 9,445 |
| | Total | 44,445 |
| 2011 - 2016 | Principal | 235,000 |
| | Interest | 28,660 |
| | Total | 263,660 |
| Total | Principal | 495,000 |
| | Interest | 103,208 |
| | Total | 598,208 |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 8: OPERATING TRANSFERS IN/OUT

The following is a schedule of operating transfers between funds for the year ending June 30, 2005:

| FUND | TRANSFERS IN | FUND | TRANSFERS OUT |
|-----------------------|--------------------------|--------------|--------------------------|
| Park Fund | \$ 132,000 | General Fund | \$ 214,000 |
| Equipment Pool | 50,000 | TIFA | 11,400 |
| Storm Drain Debt Fund | 32,000 | | |
| Major Streets | 6,400 | | |
| Park Fund | <u>5,000</u> | | |
| TOTAL | \$ <u>225,400</u> | TOTAL | \$ <u>225,400</u> |

The following is a schedule of operating transfers between the primary government and the joint venture for the year ending June 30, 2005:

| FUND | TRANSFERS IN | FUND | TRANSFERS OUT |
|---------------|------------------|------------------------------|------------------|
| | | Pottersville-Benton Township | |
| Joint Venture | \$ <u>52,047</u> | Fire Department | \$ <u>52,047</u> |

All operating transfers were made for operating purposes.

NOTE 9: EMPLOYEE RETIREMENT SYSTEMS

Defined Contribution

The City has defined contribution pension plan with the Mass Mutual Life Insurance company which covers 8 to 11 employees who have satisfied eligibility requirements. Each employee becomes eligible after three years of service. Benefits vest at 20% per year until seven years of services at which point they are 100% vested.

The formula for determining contributions is based on an employee's annual compensation. The City has elected to contribute 10% of compensation. The employees do not contribute anything.

During the year, the City of Pottersville's required contributions amounted to \$32,335 which was 10% of its current year covered payroll. However, the City actually contributed \$37,094 which was due for the prior year.

NOTE 10: DEFERRED COMPENSATION PLAN

The City of Pottersville offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, section 457. The assets of the plan are held in trust, custodial account or annuity contract described in IRC section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these section 457 plans and the assets may not be diverted to any other use. The administrator is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB statement No. 32, plan balances and activities are not reflected in the City's financial statements.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; workers' compensation; and natural disasters. The City participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, error and omissions, physical damage (equipment, building and contents) and workers' compensations. Settlement amounts have not exceeded insurance coverage for the past four years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property Pool pursuant to the provision of Public Act 138 of 1982. The pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities within the state.

The Michigan Municipal Liability Pool program operates as a common risk-sharing management program for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 12: SEGMENT INFORMATION FOR INDIVIDUAL ENTERPRISE FUNDS

| | WATER FUND | SEWER FUND | EQUIPMENT POOL FUND |
|-----------------------------------------------|---------------|---------------|---------------------------|
| Operating revenues | \$ 208,553 | \$ 179,863 | \$ 54,243 |
| Depreciation | 46,805 | 81,066 | 20,602 |
| Operating loss | (52,630) | (98,851) | (26,811) |
| Other income (loss) | 10,817 | 19,166 | (1,736) |
| Operating transfers in | | | 50,000 |
| Net income (loss) | (41,813) | (79,685) | 21,453 |
| Property, plant and equipment Additions | 16,990 | | 40,030 |
| Bonds and notes payable | 670,000 | 305,000 | 51,690 |
| Net working capital | 280,322 | 187,940 | (14,342) |
| Total assets | 2,249,516 | 2,574,010 | 114,795 |
| Total equity | 1,544,041 | 2,241,895 | 57,137 |

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2005

NOTE 13: PRIOR PERIOD ADJUSTMENT

| | |
|------------------------------------------------------|---------------------|
| Governmental funds | |
| General fund | |
| To restate prior year expenditures | \$ 9,342 |
| Permanent fund | |
| To correct prior year fund closing | <u>3,670</u> |
| | <u>13,012</u> |
| Statement of net assets | |
| Governmental funds | |
| To reclass prior year internal service fund activity | <u>17,841</u> |
| | <u>\$ 30,853</u> |
| Business-type fund | |
| To reclass prior year internal service fund activity | <u>\$(17,841)</u> |

NOTE 14: RELATED PARTY TRANSACTIONS

The City purchases health insurance from a Council Member's insurance agency. The total premiums paid during the year ended June 30, 2005 were \$78,557.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|---------------------------|--------------------|-------------------|-------------------|------------------|
| REVENUES | | | | |
| Taxes | | | | |
| Current portion | \$ 398,584 | \$ 410,421 | \$ 437,304 | \$ 26,883 |
| Delinquent tax | 2,000 | 11,400 | 2,442 | (8,958) |
| Administration fees | 16,500 | 18,300 | 18,251 | (49) |
| Trailer court tax | 2,100 | 1,600 | 1,573 | (27) |
| Penalties and interest | 4,000 | 875 | 868 | (7) |
| Total Taxes | <u>423,184</u> | <u>442,596</u> | <u>460,438</u> | <u>17,842</u> |
| Licenses and Permits | | | | |
| Permits | <u>1,800</u> | <u>4,300</u> | <u>4,270</u> | <u>(30)</u> |
| State Grants | | | | |
| State revenue sharing | | | | |
| Sales and use tax | 225,496 | 225,900 | 223,496 | (2,404) |
| Telecommunications | | | 6,364 | 6,364 |
| right-of-way maintenance | | | 1,258 | (42) |
| Liquor licenses | <u>1,400</u> | <u>1,300</u> | <u>1,258</u> | <u>(42)</u> |
| Total State Grants | <u>226,896</u> | <u>227,200</u> | <u>231,118</u> | <u>3,918</u> |
| Fines and Forfeits | <u>450</u> | <u>410</u> | <u>406</u> | <u>(4)</u> |
| Interest and Rents | | | | |
| Interest | <u>5,000</u> | <u>1,200</u> | <u>982</u> | <u>(218)</u> |
| Other Revenue | | | | |
| Communication tower lease | 18,000 | 18,000 | 18,000 | |
| Insurance | 7,000 | 1,000 | 705 | (295) |
| Salary reimbursement | 20,000 | 20,000 | 20,000 | |
| Miscellaneous | <u>6,000</u> | <u>21,300</u> | <u>21,871</u> | <u>571</u> |
| Total Other Revenue | <u>51,000</u> | <u>60,300</u> | <u>60,576</u> | <u>276</u> |
| TOTAL REVENUES | <u>\$ 708,330</u> | <u>\$ 736,006</u> | <u>\$ 757,790</u> | <u>\$ 21,784</u> |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|--------------------------------|--------------------|-------------------|---------------|--------------|
| EXPENDITURES | | | | |
| LEGISLATIVE | | | | |
| Salaries | \$ 6,600 | \$ 6,600 | \$ 5,970 | \$ 630 |
| Social security | 410 | 410 | 370 | 40 |
| Medicare | 100 | 100 | 87 | 13 |
| State unemployment | | 100 | 90 | 10 |
| Publication | 500 | 600 | 535 | 65 |
| Operating supplies | 100 | 75 | 74 | 1 |
| Service | | 1,950 | 1,950 | |
| Workers compensation insurance | 60 | 60 | 34 | 26 |
| Other | 3,000 | | | |
| TOTAL LEGISLATIVE | 10,770 | 9,895 | 9,110 | 785 |
| GENERAL GOVERNMENT | | | | |
| Mayor | | | | |
| Wages - part-time | 1,700 | 1,700 | 1,200 | 500 |
| Social security | 110 | 105 | 74 | 31 |
| Medicare | 30 | 25 | 17 | 8 |
| State unemployment | | 45 | 36 | 9 |
| Total Mayor | 1,840 | 1,875 | 1,327 | 548 |
| City Manager | | | | |
| Salaries | 60,714 | 36,268 | 37,673 | (1,404) |
| Social security | 3,764 | 2,249 | 2,638 | (389) |
| Medicare | 880 | 526 | 513 | 13 |
| Pension | 5,253 | 3,627 | 2,328 | 1,299 |
| State unemployment | 1,882 | 300 | 546 | (246) |
| Office supplies | 1,665 | 760 | 753 | 7 |
| Telephone expense | | 350 | 255 | 95 |
| Health insurance | 5,000 | 3,100 | 3,057 | 43 |
| Dental and vision | 825 | 820 | 815 | 5 |
| Workers compensation insurance | 200 | 150 | 113 | 37 |
| Liability insurance | 150 | 110 | 103 | 7 |
| Other | 650 | | | |
| Total City Manager | 80,983 | 48,261 | 48,794 | (533) |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|-----------------------------------|--------------------|-------------------|---------------|----------------|
| EXPENDITURES - Continued | | | | |
| GENERAL GOVERNMENT - Continued | | | | |
| Elections | | | | |
| Wages - part-time | \$ 470 | \$ 1,110 | \$ 1,110 | \$ |
| Publication | 700 | 750 | 748 | 2 |
| Supplies | 700 | 2,100 | 2,096 | 4 |
| Office supplies | 550 | 700 | 361 | 339 |
| Contract labor | 970 | 500 | 529 | (29) |
| Total Elections | <u>3,390</u> | <u>5,160</u> | <u>4,844</u> | <u>316</u> |
| Independent Audit and Accounting | | | | |
| Professional services | <u>20,400</u> | <u>63,570</u> | <u>60,770</u> | <u>2,800</u> |
| Treasurer | | | | |
| Salaries | 23,278 | 20,100 | 20,726 | (626) |
| Social security | 650 | 1,246 | 1,483 | (237) |
| Medicare | 300 | 291 | 279 | 12 |
| Pension | 2,517 | 1,700 | 1,014 | 686 |
| State unemployment | 722 | 800 | 1,006 | (206) |
| Benton Township 425 tax agreement | 9,500 | 9,100 | 9,052 | 48 |
| Postage | | 700 | 688 | 12 |
| Computer software | | 1,710 | 1,702 | 8 |
| Office supplies | 1,000 | 1,100 | 2,270 | (1,170) |
| Telephone expense | | 10 | 10 | |
| Health insurance | | 1,900 | 1,897 | 3 |
| Workers compensation insurance | 77 | 160 | 160 | |
| Conferences and workshops | | 400 | 390 | 10 |
| Miscellaneous | 600 | | 10 | (10) |
| Total Treasurer | <u>38,644</u> | <u>39,216</u> | <u>40,687</u> | <u>(1,471)</u> |
| Assessor | | | | |
| Salaries | 10,770 | 10,770 | 11,259 | (489) |
| Social security | 668 | 668 | 766 | (98) |
| Medicare | 156 | 156 | 136 | 20 |
| State unemployment | 334 | 250 | 372 | (122) |
| Computer software | 610 | 310 | 310 | |
| Supplies | 250 | 50 | 25 | 25 |
| Postage | 400 | 950 | 948 | 2 |
| Office supplies | 450 | 200 | 194 | 6 |
| Workers compensation insurance | 36 | 21 | 20 | 1 |
| Liability insurance | 150 | | | |
| Total Assessor | <u>13,824</u> | <u>13,375</u> | <u>14,030</u> | <u>(655)</u> |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND - Continued

FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|----------------------------------------|--------------------|-------------------|-----------|------------|
| EXPENDITURES - Continued | | | | |
| GENERAL GOVERNMENT - Concluded | | | | |
| Attorney | | | | |
| Professional services | \$ 24,000 | \$ 21,100 | \$ 22,725 | \$ (1,625) |
| City Clerk's Office | | | | |
| Salaries | 35,000 | 35,000 | 35,158 | (158) |
| Social security | 2,170 | 2,170 | 2,303 | (133) |
| Medicare | 508 | 508 | 495 | 13 |
| Pension | 1,100 | 3,312 | 2,135 | 1,177 |
| State unemployment | 350 | 650 | 764 | (114) |
| Publication | 325 | 650 | 589 | 61 |
| Postage | 50 | 140 | 133 | 7 |
| Supplies | 250 | 110 | 104 | 6 |
| Computer software | 300 | 2,000 | 1,961 | 39 |
| Office supplies | 3,000 | 4,200 | 4,188 | 12 |
| Contract labor | 200 | 11,100 | 11,041 | 59 |
| Health insurance | 10,000 | 5,300 | 5,237 | 63 |
| Workers compensation insurance | 116 | 75 | 65 | 10 |
| Dental and vision | 2,900 | 820 | 815 | 5 |
| Dues and subscriptions | 250 | 60 | 60 | |
| Liability insurance | 150 | | | |
| Total City Clerk's Office | 56,669 | 66,095 | 65,048 | 1,047 |
| Board of Review | | | | |
| Contract labor | 550 | 1,095 | 1,095 | |
| Building and Grounds - City Hall | | | | |
| Supplies | 3,000 | 3,500 | 3,319 | 181 |
| Repairs and maintenance | | 400 | 394 | 6 |
| Computer software | | 675 | 655 | 20 |
| Service | 2,000 | 3,300 | 3,246 | 54 |
| Office supplies | 150 | 510 | 362 | 148 |
| Contract labor | 400 | | | |
| Telephone expense | 6,500 | 4,300 | 3,964 | 336 |
| Liability insurance | 4,000 | 4,000 | 4,000 | |
| Utilities | 5,500 | 4,600 | 4,775 | (175) |
| Miscellaneous | 2,400 | 200 | 1,844 | (1,644) |
| Total Building and Grounds - City Hall | 23,950 | 21,485 | 22,559 | (1,074) |
| TOTAL GENERAL GOVERNMENT | 264,250 | 281,232 | 281,879 | (647) |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND - Continued

FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|--------------------------------|--------------------|-------------------|----------------|--------------|
| EXPENDITURES - Continued | | | | |
| PUBLIC SAFETY | | | | |
| Police Department | | | | |
| Salaries | \$ 83,000 | \$ 102,050 | \$ 104,089 | \$ (2,039) |
| Crossing guard salary | 300 | 2,500 | 2,453 | 47 |
| Social security | 5,146 | 6,327 | 7,388 | (1,061) |
| Medicare | 1,204 | 1,480 | 1,422 | 58 |
| Pension | 10,000 | 8,500 | 5,310 | 3,190 |
| State unemployment | 1,000 | 920 | 1,875 | (955) |
| Uniform expenses | 400 | 2,500 | 1,299 | 1,201 |
| Supplies | 2,050 | 600 | 872 | (272) |
| Repairs and maintenance | 1,000 | 1,500 | 1,896 | (396) |
| Training | 1,000 | 760 | 754 | 6 |
| Contract labor | | 160 | 160 | |
| Radio repairs | 500 | 10 | 7 | 3 |
| Telephone expense | 500 | 500 | 391 | 109 |
| Gas and oil | 1,000 | 4,000 | 4,339 | (339) |
| Dental and vision | 4,000 | 1,943 | 1,833 | 110 |
| Health insurance | 15,500 | 23,000 | 20,890 | 2,110 |
| Workers compensation insurance | 274 | 2,525 | 2,227 | 298 |
| Liability insurance | 2,750 | | | |
| Miscellaneous | 400 | 4,400 | 4,373 | 27 |
| Total Police Department | <u>130,024</u> | <u>163,675</u> | <u>161,578</u> | <u>2,097</u> |
| Fire Department | | | | |
| Hydrant rental | <u>64,000</u> | <u>52,050</u> | <u>52,047</u> | <u>3</u> |
| Planning Commission | | | | |
| Salaries | 6,800 | 6,800 | 6,790 | 10 |
| Social security | 217 | 422 | 432 | (10) |
| Medicare | 51 | 99 | 98 | 1 |
| State unemployment | | 135 | 137 | (2) |
| Publication | 300 | 255 | 254 | 1 |
| Dues and subscriptions | 500 | | | |
| Liability insurance | 1,000 | | | |
| Conferences and workshops | | 60 | 60 | |
| Total Planning Commission | <u>8,868</u> | <u>7,771</u> | <u>7,771</u> | |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND - Continued

FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|----------------------------------------------------------------------------|--------------------|-------------------|---------|----------|
| EXPENDITURES - Continued | | | | |
| PUBLIC SAFETY - Concluded | | | | |
| Zoning Commission | | | | |
| Publication | \$ 400 | \$ 320 | \$ 311 | \$ 9 |
| Office supplies | 400 | 175 | 165 | 10 |
| Total Zoning Commission | 800 | 495 | 476 | 19 |
| TOTAL PUBLIC SAFETY | 203,692 | 223,991 | 221,872 | 2,119 |
| PUBLIC WORKS | | | | |
| Administration | | | | |
| Salaries | 16,480 | 10,796 | 11,070 | (274) |
| Social security | 1,022 | 669 | 724 | (55) |
| Medicare | 239 | 157 | 156 | 1 |
| Pension | 1,648 | 1,080 | 1,021 | 59 |
| State unemployment | 511 | 150 | 187 | (37) |
| Uniform expenses | 515 | 320 | 314 | 6 |
| Publication | | 325 | 325 | |
| Supplies | 824 | 170 | 163 | 7 |
| Office supplies | 3,000 | 3,150 | 2,403 | 747 |
| Health insurance | 3,090 | 2,150 | 2,141 | 9 |
| Workers compensation insurance | 54 | 40 | 221 | (181) |
| Dental and vision | 361 | | | |
| Utilities | | 250 | 187 | 63 |
| Equipment rental | 1,500 | 2,150 | 1,999 | 151 |
| Total Administration | 29,244 | 21,408 | 20,911 | 497 |
| Sidewalks | | | | |
| Street materials and supplies | 3,500 | 3,500 | | 3,500 |
| Street Lights | | | | |
| Utilities | 22,000 | 18,900 | 17,482 | 1,418 |
| TOTAL PUBLIC WORKS | 54,744 | 43,808 | 38,393 | 5,415 |
| TOTAL EXPENDITURES | 533,456 | 558,926 | 551,254 | 7,672 |
| EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES | 174,874 | 177,080 | 206,536 | 29,456 |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|---------------------------------------------------------------|--------------------|-------------------|-------------------|------------------|
| OTHER FINANCING USES | | | | |
| Operating transfers out | | | | |
| Park Fund | \$ 132,000 | \$ 144,000 | \$ 132,000 | \$ 12,000 |
| Storm Drain Maintenance | 7,500 | 1,500 | | 1,500 |
| Equipment Fund | 50,000 | 50,000 | 50,000 | |
| Storm Drain Debt Fund | 30,000 | 32,000 | 32,000 | |
| TOTAL OTHER FINANCING USES | <u>219,500</u> | <u>227,500</u> | <u>214,000</u> | <u>13,500</u> |
| DEFICIENCY OF REVENUES OVER EXPENDITURES AND OTHER USES | <u>(44,626)</u> | <u>(50,420)</u> | <u>(7,464)</u> | <u>42,956</u> |
| FUND BALANCE, JULY 1 | 129,682 | 129,682 | 129,682 | |
| PRIOR PERIOD ADJUSTMENT | | | 9,342 | 9,342 |
| FUND BALANCE, JUNE 30 | \$ <u>85,056</u> | \$ <u>79,262</u> | \$ <u>131,560</u> | \$ <u>52,298</u> |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|-----------------------------------------------------|--------------------|-------------------|----------------|----------------|
| REVENUES | | | | |
| State grants | | | | |
| State revenue sharing - Act 51 | \$ 130,000 | \$ 90,000 | \$ 94,650 | \$ 4,650 |
| Federal grant | 119,000 | 119,000 | 119,398 | 398 |
| Interest and rents | | | | |
| Interest | 20,000 | 2,500 | 2,578 | 78 |
| Miscellaneous | | 1,600 | 1,555 | (45) |
| TOTAL REVENUES | <u>269,000</u> | <u>213,100</u> | <u>218,181</u> | <u>5,081</u> |
| EXPENDITURES | | | | |
| PUBLIC WORKS | | | | |
| Street Construction | | | | |
| Street materials and supplies | 773 | 2,000 | 1,991 | 9 |
| Engineer fees | | 750 | 582 | 168 |
| Total Street Construction | <u>773</u> | <u>2,750</u> | <u>2,573</u> | <u>177</u> |
| Street Construction - Vernonville Highway | | | | |
| Engineer fees | 71,400 | 16,000 | 21,634 | (5,634) |
| Contract labor | 208,600 | 252,000 | 251,919 | 81 |
| Total Street Construction - Vernontville Highway | <u>280,000</u> | <u>268,000</u> | <u>273,553</u> | <u>(5,553)</u> |
| Routine Maintenance | | | | |
| Salaries | 7,519 | 13,075 | 13,871 | (796) |
| Social security | 466 | 810 | 805 | 5 |
| Medicare | 109 | 190 | 188 | 2 |
| Pension | 752 | 1,400 | 1,297 | 103 |
| State unemployment | 233 | 150 | 243 | (93) |
| Street materials and supplies | 4,532 | 6,150 | 5,584 | 566 |
| Service | | 120 | 113 | 7 |
| Contract labor | | 1,500 | 1,373 | 127 |
| Health insurance | 1,442 | 3,500 | 3,436 | 64 |
| Workers compensation insurance | 25 | 1,700 | 1,620 | 80 |
| Liability insurance | 103 | 2,800 | 2,778 | 22 |
| Disability and life | 93 | | | |
| Dental and vision | 185 | | | |
| Equipment rentals | 1,845 | 6,300 | 6,096 | 204 |
| Total Routine Maintenance | <u>17,304</u> | <u>37,695</u> | <u>37,404</u> | <u>291</u> |
| Special Maintenance | | | | |
| Tree trimming | 3,000 | 1,500 | 2,396 | (896) |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

MAJOR STREET FUND - Concluded

FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|----------------------------------------------------------------------------------------|--------------------|-------------------|------------|----------|
| EXPENDITURES - Concluded | | | | |
| PUBLIC WORKS - Concluded | | | | |
| Administration | | | | |
| Audit | \$ 4,500 | \$ 5,250 | \$ 4,250 | \$ 1,000 |
| Salary reimbursement - City Manager | | | | |
| Payroll taxes | 2,800 | 2,800 | 2,800 | |
| Total Administration | 7,300 | 8,050 | 7,050 | 1,000 |
| Winter Maintenance | 22,434 | | | |
| Traffic Signs | | | | |
| Street materials and supplies | 645 | 275 | 261 | 14 |
| TOTAL PUBLIC WORKS | 331,456 | 318,270 | 323,237 | (4,967) |
| DEBT SERVICE | | | | |
| Principal | 5,185 | 5,185 | 5,391 | (206) |
| Interest and fiscal charges | 650 | 650 | 440 | 210 |
| TOTAL DEBT SERVICE | 5,835 | 5,835 | 5,831 | 4 |
| TOTAL EXPENDITURES | 337,291 | 324,105 | 329,068 | (4,963) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (68,291) | (111,005) | (110,887) | 118 |
| OTHER FINANCING SOURCES | | | | |
| Operating transfers in | | | | |
| Component unit | 6,400 | 6,400 | 6,400 | |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES | (61,891) | (104,605) | (104,487) | 118 |
| FUND BALANCE, JULY 1 | 212,787 | 212,787 | 212,787 | |
| FUND BALANCE, JUNE 30 | \$ 150,896 | \$ 108,182 | \$ 108,300 | \$ 118 |

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

LOCAL STREET FUND

FOR THE YEAR ENDED JUNE 30, 2005

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE |
|------------------------------------------------------------------|--------------------|-------------------|------------------|-----------------|
| REVENUES | | | | |
| State grants | | | | |
| State revenue sharing - Act 51 | \$ 33,500 | \$ 33,500 | \$ 35,607 | \$ 2,107 |
| Interest and rents | | | | |
| Interest | | 1,500 | 1,682 | 182 |
| Other revenue | | | | |
| Miscellaneous | | 1,210 | 1,209 | (1) |
| TOTAL REVENUES | <u>33,500</u> | <u>36,210</u> | <u>38,498</u> | <u>2,288</u> |
| EXPENDITURES | | | | |
| PUBLIC WORKS | | | | |
| Routine Maintenance | | | | |
| Salaries | 7,725 | 10,800 | 11,171 | (371) |
| Social security | 479 | 670 | 650 | 20 |
| Medicare | 112 | 157 | 152 | 5 |
| Pension | 773 | 1,080 | 1,051 | 29 |
| State unemployment | 239 | 90 | 192 | (102) |
| Street materials and supplies | 4,635 | 1,500 | 1,359 | 141 |
| Service | 5,150 | 120 | 112 | 8 |
| Contract labor | | 200 | 195 | 5 |
| Health insurance | 1,442 | 2,500 | 2,499 | 1 |
| Workers compensation insurance | 25 | 32 | 31 | 1 |
| Disability and life | 92 | | | |
| Liability insurance | 103 | 2,770 | 2,769 | 1 |
| Dental and vision | 185 | | | |
| Equipment rentals | 1,545 | 6,121 | 6,015 | 106 |
| Total Routine Maintenance | <u>22,505</u> | <u>26,040</u> | <u>26,196</u> | <u>(156)</u> |
| Winter Maintenance | <u>19,926</u> | | | |
| Special Maintenance | | | | |
| Tree trimming | <u>2,575</u> | <u>1,300</u> | <u>1,290</u> | <u>10</u> |
| Administration | | | | |
| Audit | | 950 | (50) | 1,000 |
| Traffic Signs | | | | |
| Street materials and supplies | <u>515</u> | <u>40</u> | <u>37</u> | <u>3</u> |
| TOTAL EXPENDITURES | <u>45,521</u> | <u>28,330</u> | <u>27,473</u> | <u>857</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(12,021)</u> | <u>7,880</u> | <u>11,025</u> | <u>3,145</u> |
| FUND BALANCE, JULY 1 | <u>79,302</u> | <u>79,302</u> | <u>79,302</u> | |
| FUND BALANCE, JUNE 30 | <u>\$ 67,281</u> | <u>\$ 87,182</u> | <u>\$ 90,327</u> | <u>\$ 3,145</u> |

See accompanying notes to financial statements.

NON MAJOR SPECIAL REVENUE FUNDS

A Special Revenue Fund is used to finance particular activities and is created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

The Nonmajor Special Revenue Fund of the City is the Park Fund.

CITY OF POTTERVILLE, MICHIGAN
BALANCE SHEET
NON MAJOR SPECIAL REVENUE FUND
PARK FUND
JUNE 30, 2005

ASSETS

| | |
|----------------------------|------------------|
| Cash | \$ 200 |
| Due from other governments | 10,000 |
| Bond discount | <u>25,000</u> |
| TOTAL ASSETS | <u>\$ 35,200</u> |

LIABILITIES AND FUND BALANCE

LIABILITIES

| | |
|--------------------|---------------|
| Accounts payable | \$ 1,427 |
| Pension payable | 527 |
| Accrued payroll | 977 |
| Due to other funds | <u>8,326</u> |
| TOTAL LIABILITIES | <u>11,257</u> |

FUND BALANCE

| | |
|---------------------------|---------------|
| Reserved for debt service | <u>23,943</u> |
|---------------------------|---------------|

| | |
|------------------------------------|------------------|
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 35,200</u> |
|------------------------------------|------------------|

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PARK FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | BUDGET | ACTUAL | VARIANCE |
|----------------------------------------|---------------|---------------|----------------|
| REVENUES | | | |
| Fees and rents | | | |
| 3% Cable television | \$ 7,200 | \$ 7,179 | \$ (21) |
| League fees | 12,900 | 13,480 | 580 |
| Mud bog | 2,530 | 2,529 | (1) |
| Player fees | 4,450 | 4,448 | (2) |
| Tournament fees | 3,250 | 3,250 | |
| Field rental | 3,400 | 3,375 | (25) |
| Pavillion rent | 1,070 | 1,170 | 100 |
| Other revenue | 134 | 133 | (1) |
| Concessions | | 1,882 | 1,882 |
| State grant | | 10,000 | 10,000 |
| Miscellaneous | 16,499 | 599 | (15,900) |
| TOTAL REVENUES | 51,433 | 48,045 | (3,388) |
| EXPENDITURES | | | |
| Recreation and culture | | | |
| Lake Alliance maintenance | | | |
| Salaries | 7,500 | 8,007 | (507) |
| Social security | 465 | 455 | 10 |
| Medicare | 109 | 106 | 3 |
| Pension | 750 | 747 | 3 |
| State unemployment | 40 | 126 | (86) |
| Repairs and maintenance | 410 | 409 | 1 |
| Service | 100 | 100 | |
| Office supplies | 980 | 973 | 7 |
| Health insurance | 1,810 | 1,805 | 5 |
| Equipment rental | 2,850 | 5,240 | (2,390) |
| Total Lake Alliance maintenance | 15,014 | 17,968 | (2,954) |
| City Park Maintenance | | | |
| Salaries | 9,000 | 9,368 | (368) |
| Social security | 558 | 548 | 10 |
| Medicare | 131 | 128 | 3 |
| Pension | 900 | 893 | 7 |
| State unemployment | 42 | 112 | (70) |
| Supplies | 330 | 328 | 2 |
| Service | 960 | 1,080 | (120) |
| Office supplies | 25 | 25 | |
| Health insurance | 2,275 | 2,050 | 225 |
| Workers compensation insurance | 721 | 721 | |
| Utilities | 2,462 | 1,354 | 1,108 |
| Equipment rental | 4,260 | 5,548 | (1,288) |
| Total City Park Maintenance | 21,664 | 22,155 | (491) |

CITY OF POTTERVILLE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

PARK FUND - Concluded

FOR THE YEAR ENDED JUNE 30, 2005

| | BUDGET | ACTUAL | VARIANCE |
|---------------------------------------------------------------------------|------------------|------------------|-------------------|
| EXPENDITURES - Concluded | | | |
| Ball Field | | | |
| Salaries | \$ 120 | \$ 119 | \$ 1 |
| Social security | 7 | 7 | |
| Medicare | 2 | 2 | |
| Pension | 12 | 12 | |
| Supplies | 3,450 | 3,664 | (214) |
| Repairs and maintenance | 1,600 | 1,183 | 417 |
| Service | 20,200 | 20,200 | |
| Contract labor | 16,050 | 15,778 | 272 |
| Telephone expense | 2 | | 2 |
| Utilities | 4,400 | 5,262 | (862) |
| Refund and rebates | 400 | 400 | |
| Capital outlay - equipment | 120 | 112 | 8 |
| Total Ball Field | <u>46,363</u> | <u>46,739</u> | <u>(376)</u> |
| Mud Bog | | | |
| Supplies | 1,000 | 595 | 405 |
| Service | 2,100 | 2,095 | 5 |
| Miscellaneous | 2,202 | 2,006 | 196 |
| Total Mud Bog | <u>5,302</u> | <u>4,696</u> | <u>606</u> |
| Debt Service | | | |
| Principal | 700,000 | 700,000 | |
| Interest | 44,500 | 44,449 | 51 |
| Fiscal charges | 17,313 | 613 | 16,700 |
| Total Debt Service | <u>761,813</u> | <u>745,062</u> | <u>16,751</u> |
| TOTAL EXPENDITURES | <u>850,156</u> | <u>836,620</u> | <u>13,536</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(798,723)</u> | <u>(788,575)</u> | <u>10,148</u> |
| OTHER FINANCING SOURCES | | | |
| Bond proceeds | 675,000 | 675,000 | |
| Operating transfers in | | | |
| General Fund | 144,000 | 132,000 | (12,000) |
| TIFA | 5,000 | 5,000 | |
| TOTAL OTHER FINANCING SOURCES | <u>824,000</u> | <u>812,000</u> | <u>(12,000)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES | <u>25,277</u> | <u>23,425</u> | <u>(1,852)</u> |
| FUND BALANCE, JULY 1 | <u>518</u> | <u>518</u> | |
| FUND BALANCE, JUNE 30 | <u>\$ 25,795</u> | <u>\$ 23,943</u> | <u>\$ (1,852)</u> |

DEBT SERVICE FUNDS

Debt Service Funds are established to finance and account for the payment of interest and principal on all general obligation debt and revenue bonds issued for and serviced by a governmental enterprise.

The City's Debt Service Funds include the Storm Drain Special Assessment Bond Fund and Sunset Hills Special Assessment Bond Funds.

CITY OF POTTERVILLE, MICHIGAN

BALANCE SHEET

NON MAJOR DEBT SERVICE FUNDS

JUNE 30, 2005

| | STORM DRAIN SPECIAL ASSESSMENT BOND FUND | SUNSET HILLS SPECIAL ASSESSMENT BOND FUND | TOTAL NON MAJOR GOVERNMENTAL FUNDS |
|------------------------------------|---------------------------------------------------------|----------------------------------------------------------|---------------------------------------------|
| ASSETS | | | |
| Cash | \$ 4,346 | \$ 124,150 | \$ 128,496 |
| Special assessments | 49,575 | 62,142 | 111,717 |
| Due from other funds | | 1,706 | 1,706 |
| TOTAL ASSETS | <u>\$ 53,921</u> | <u>\$ 187,998</u> | <u>\$ 241,919</u> |
| LIABILITIES AND FUND BALANCE | | | |
| LIABILITIES | | | |
| Due to other funds | \$ 1,706 | \$ 62,142 | \$ 1,706 |
| Deferred revenue | 49,575 | 62,142 | 111,717 |
| TOTAL LIABILITIES | <u>51,281</u> | <u>62,142</u> | <u>113,423</u> |
| FUND BALANCE | | | |
| Reserved for debt service | <u>2,640</u> | <u>125,856</u> | <u>128,496</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 53,921</u> | <u>\$ 187,998</u> | <u>\$ 241,919</u> |

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
STORM DRAIN SPECIAL ASSESSMENT BOND FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | BUDGET | ACTUAL | VARIANCE |
|------------------------------------------------------------------------------------|------------------------|------------------------|--------------------------|
| REVENUES | | | |
| Special assessments | \$ <u>4,000</u> | \$ <u>3,958</u> | \$ <u>(42)</u> |
| EXPENDITURES | | | |
| Debt service | | | |
| Principal | 25,000 | 25,000 | |
| Interest and fiscal charges | <u>10,450</u> | <u>12,152</u> | <u>(1,702)</u> |
| TOTAL EXPENDITURES | <u>35,450</u> | <u>37,152</u> | <u>(1,702)</u> |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | <u>(31,450)</u> | <u>(33,194)</u> | <u>(1,744)</u> |
| OTHER FINANCING SOURCES | | | |
| Transfer in from other funds | <u>32,000</u> | <u>32,000</u> | |
| EXCESS (DEFICIENCY) OF REVENUES AND SOURCES OVER EXPENDITURES AND OTHER USES | 550 | (1,194) | (1,744) |
| FUND BALANCE, JULY 1 | <u>3,834</u> | <u>3,834</u> | |
| FUND BALANCE, JUNE 30 | \$ <u><u>4,384</u></u> | \$ <u><u>2,640</u></u> | \$ <u><u>(1,744)</u></u> |

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SUNSET HILLS SPECIAL ASSESSMENT BOND FUND
YEAR ENDED JUNE 30, 2005

| | BUDGET | ACTUAL | VARIANCE |
|-----------------------------------------|--------------------------|--------------------------|------------------------|
| REVENUES | | | |
| Special assessments | \$ <u>122,600</u> | \$ <u>122,462</u> | \$ <u>(138)</u> |
| EXPENDITURES | | | |
| Debt service | | | |
| Principal | 30,000 | 30,000 | |
| Interest and fiscal charges | <u>14,290</u> | <u>12,518</u> | <u>1,772</u> |
| TOTAL EXPENDITURES | <u>44,290</u> | <u>42,518</u> | <u>1,772</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | 78,310 | 79,944 | 1,910 |
| FUND BALANCE, JULY 1 | <u>45,912</u> | <u>45,912</u> | <u></u> |
| FUND BALANCE, JUNE 30 | \$ <u><u>124,222</u></u> | \$ <u><u>125,856</u></u> | \$ <u><u>1,910</u></u> |

ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition, operation and maintenance of governmental facilities and services which are entirely or predominately self-supporting by user charges. The significant characteristic of Enterprise Funds is that the accounting system must make it possible to show whether the activity is operated at a profit or loss, similar to comparable private enterprise. Thus, the reports of Enterprise Funds are self-contained and creditors, legislators or the general public can evaluate the performance of the municipal enterprise on the same basis as they can the performance of investor-owned enterprises in the same industry.

The City operates its Water Supply and Sewage Disposal as Enterprise Funds.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

WATER SUPPLY SYSTEM

JUNE 30, 2005

ASSETS

CURRENT ASSETS

| | |
|-----------------------------|----------------|
| Cash | \$ 293,893 |
| Receivables | |
| Accounts | 21,904 |
| TOTAL CURRENT ASSETS | <u>315,797</u> |

RESTRICTED ASSETS

| | |
|------|--------------|
| Cash | <u>7,260</u> |
|------|--------------|

CAPITAL ASSETS

| | |
|--------------------------------|----------------------------|
| Land | 23,713 |
| Mains and connections | 846,958 |
| Wells and controls | 822,582 |
| Machinery and equipment | <u>718,815</u> |
| | 2,412,068 |
| Less: accumulated depreciation | <u>(485,609)</u> |
| NET CAPITAL ASSETS | <u>1,926,459</u> |
| TOTAL ASSETS | \$ <u><u>2,249,516</u></u> |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|----------------------------------|---------------|
| Accounts payable | \$ 2,100 |
| Accrued payroll | 5,757 |
| Accrued interest payable | 8,293 |
| Customer deposits payable | 7,260 |
| Pension payable | 2,415 |
| Due to other funds | 922 |
| Accrued compensated absences | <u>8,728</u> |
| TOTAL CURRENT LIABILITIES | <u>35,475</u> |

CURRENT LIABILITIES PAYABLE

FROM RESTRICTED ASSETS

| | |
|-----------------------------------|---------------|
| Current portion of long-term debt | |
| Water system bonds | <u>15,000</u> |

LONG-TERM LIABILITIES

| | |
|--------------------------|----------------|
| Revenue bonds payable | <u>655,000</u> |
| TOTAL LIABILITIES | <u>705,475</u> |

NET ASSETS

| | |
|-------------------------------------------------|----------------------------|
| Invested in capital assets, net of related debt | 1,257,025 |
| Unrestricted | <u>287,016</u> |
| TOTAL NET ASSETS | <u>1,544,041</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u><u>2,249,516</u></u> |

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
WATER SUPPLY SYSTEM
FOR THE YEAR ENDED JUNE 30, 2005

OPERATING REVENUES

| | |
|----------------------------------|----------------|
| Charges for services | |
| Sales | \$ 200,445 |
| Other revenue | |
| Penalties on delinquent accounts | 7,183 |
| Miscellaneous | 925 |
| | <hr/> |
| TOTAL OPERATING REVENUES | 208,553 |

OPERATING EXPENSES

| | |
|-------------------------------------------|---------------|
| Public Works | |
| Administration and General | |
| Salaries | 44,402 |
| Social security | 2,341 |
| Medicare | 548 |
| Pension | 2,784 |
| State unemployment | 840 |
| Salary reimbursement-City manager | 8,600 |
| Liability insurance | 2,650 |
| Computer software | 1,514 |
| Operating supplies | 1,776 |
| Postage | 123 |
| Professional services | 4,095 |
| Engineer fees | 673 |
| Office supplies | 271 |
| Contract labor | 7,044 |
| Membership and dues | 250 |
| Telephone | 188 |
| Conference and workshops | 125 |
| Health insurance | 1,604 |
| Workers Compensation insurance | 1,111 |
| Dental and vision insurance | 1,574 |
| | <hr/> |
| Total Administrative and General Expenses | 82,513 |

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
WATER SUPPLY SYSTEM - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

OPERATING EXPENSES - Concluded

Collection and Distribution

| | |
|-----------------------------|-----------|
| Salaries | \$ 58,361 |
| Social security | 3,090 |
| Medicare | 723 |
| Pension | 4,889 |
| State unemployment | 971 |
| Printing and publishing | 73 |
| Operating supplies | 7,506 |
| Repairs and maintenance | 1,833 |
| Service | 7,139 |
| Meters | 3,600 |
| Office supplies | 2,745 |
| Health insurance | 8,144 |
| Dental and vision insurance | 940 |
| Utilities | 15,053 |
| Equipment rental | 14,174 |
| Line extension | 25 |
| Depreciation | 46,805 |

| | |
|-----------------------------------|---------|
| Total Collection and Distribution | 176,071 |
|-----------------------------------|---------|

Well project

| | |
|---------------|-------|
| Service | 2,596 |
| Engineer fees | 3 |

| | |
|--------------------|-------|
| Total Well Project | 2,599 |
|--------------------|-------|

| | |
|--------------------|---------|
| TOTAL EXPENDITURES | 261,183 |
|--------------------|---------|

| | |
|----------------|----------|
| OPERATING LOSS | (52,630) |
|----------------|----------|

NONOPERATING REVENUES (EXPENSES)

| | |
|-----------------------------|----------|
| Hook-up fees | 44,500 |
| Interest and fiscal charges | (33,683) |

| | |
|----------------------------------------|--------|
| TOTAL NONOPERATING REVENUES (EXPENSES) | 10,817 |
|----------------------------------------|--------|

| | |
|-----------------------|----------|
| CHANGES IN NET ASSETS | (41,813) |
|-----------------------|----------|

| | |
|--------------------|-----------|
| NET ASSETS, JULY 1 | 1,585,854 |
|--------------------|-----------|

| | |
|---------------------|--------------|
| NET ASSETS, JUNE 30 | \$ 1,544,041 |
|---------------------|--------------|

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
WATER SUPPLY SYSTEM
FOR THE YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--------------------------------------------------|---------------|
| Customers and other revenues | \$ 218,295 |
| Suppliers for goods and services | (98,917) |
| Employees for services | (104,464) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>14,914</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|---------------------------------------------------------|----------------|
| Restricted cash | (7,260) |
| Customer deposits payable | 840 |
| NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES | <u>(6,420)</u> |

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

| | |
|----------------------------------------------------------------------|-----------------|
| Proceeds | |
| Hook up fees | 44,500 |
| Acquisition of capital assets | (16,990) |
| Debt | |
| Principal | (15,000) |
| Interest | (33,945) |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(21,435)</u> |

| | |
|------------------------------------------------------|----------|
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (12,941) |
|------------------------------------------------------|----------|

| | |
|------------------------------------------|----------------|
| CASH AND CASH EQUIVALENTS, JULY 1 | <u>306,834</u> |
|------------------------------------------|----------------|

| | |
|-------------------------------------------|--------------------------|
| CASH AND CASH EQUIVALENTS, JUNE 30 | <u><u>\$ 293,893</u></u> |
|-------------------------------------------|--------------------------|

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
WATER SUPPLY SYSTEM - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

RECONCILIATION OF OPERATING INCOME

TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|-----------------------------------------------------------------------------------------|-------------------------|
| Operating loss | \$ <u>(52,630)</u> |
| Adjustments to reconcile operating loss to net cash provided by operating activities | |
| Depreciation | 46,805 |
| (Increase) decrease in current assets | |
| Accounts receivable | (258) |
| Due from other funds | 10,000 |
| Increase (decrease) in current liabilities | |
| Accounts payable | (3,222) |
| Accrued payroll | 5,757 |
| Accrued compensated absences | 8,728 |
| Due to other funds | <u>(266)</u> |
| TOTAL ADJUSTMENTS | <u>67,544</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ <u><u>14,914</u></u> |

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

SEWAGE DISPOSAL SYSTEM

JUNE 30, 2005

ASSETS

CURRENT ASSETS

| | |
|----------------------|----------------|
| Cash | \$ 197,208 |
| Receivables | |
| Accounts | 17,847 |
| TOTAL CURRENT ASSETS | <u>215,055</u> |

RESTRICTED ASSETS

| | |
|------|---------------|
| Cash | <u>49,792</u> |
|------|---------------|

CAPITAL ASSETS

| | |
|--------------------------------|---------------------|
| Land | 236,363 |
| Treatment systems | 83,377 |
| Collection lines | 3,825,538 |
| Machinery and equipment | 12,427 |
| | <u>4,157,705</u> |
| Less: accumulated depreciation | <u>(1,848,542)</u> |
| NET CAPITAL ASSETS | <u>2,309,163</u> |
| TOTAL ASSETS | <u>\$ 2,574,010</u> |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|------------------------------|---------------|
| Accounts payable | \$ 1,278 |
| Accrued payroll | 4,794 |
| Accrued interest payable | 2,675 |
| Customer deposits payable | 7,260 |
| Pension payable | 2,443 |
| Due to other funds | 768 |
| Accrued compensated absences | 7,897 |
| TOTAL CURRENT LIABILITIES | <u>27,115</u> |

CURRENT LIABILITIES PAYABLE

FROM RESTRICTED ASSETS

| | |
|-----------------------------------|---------------|
| Current portion of long-term debt | |
| Revenue bonds payable | <u>18,000</u> |

LONG-TERM LIABILITIES

| | |
|-----------------------|----------------|
| Revenue bonds payable | <u>287,000</u> |
| TOTAL LIABILITIES | <u>332,115</u> |

NET ASSETS

| | |
|-------------------------------------------------|---------------------|
| Invested in capital assets, net of related debt | 2,004,163 |
| Unrestricted | <u>237,732</u> |
| TOTAL NET ASSETS | <u>2,241,895</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,574,010</u> |

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS

SEWAGE DISPOSAL SYSTEM

FOR THE YEAR ENDED JUNE 30, 2005

OPERATING REVENUES

| | |
|----------------------------------|------------|
| Charges for services | |
| Sales | \$ 171,272 |
| Other revenue | |
| Penalties on delinquent accounts | 7,714 |
| Miscellaneous | 877 |
| | <hr/> |
| TOTAL OPERATING REVENUES | 179,863 |

OPERATING EXPENSES

| | |
|-------------------------------------------|--------|
| Public Works | |
| Administration and general | |
| Salaries | 46,632 |
| Social security | 2,459 |
| Medicare | 575 |
| Pension | 2,827 |
| State unemployment | 899 |
| Salary reimbursement-City manager | 8,600 |
| Liability insurance | 6,800 |
| Computer software | 1,514 |
| Operating supplies | 255 |
| Postage | 771 |
| Professional services | (300) |
| Office supplies | 1,952 |
| Contract labor | 3,856 |
| Telephone | 482 |
| Conference and workshops | 125 |
| Health insurance | 1,522 |
| Dental and vision insurance | 1,777 |
| Workers compensation insurance | 1,180 |
| Miscellaneous | 140 |
| | <hr/> |
| Total Administrative and General Expenses | 82,066 |

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
SEWAGE DISPOSAL SYSTEM - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

OPERATING EXPENSES - Concluded

Collection and Distribution

| | |
|-------------------------|-----------|
| Salaries | \$ 59,342 |
| Social security | 3,269 |
| Medicare | 764 |
| Pension | 5,283 |
| State unemployment | 828 |
| Operating supplies | 3,226 |
| Repairs and maintenance | 2,539 |
| Service | 2,810 |
| Professional services | 4,395 |
| Office supplies | 260 |
| Health insurance | 9,703 |
| Utilities | 12,332 |
| Equipment rental | 10,831 |
| Depreciation | 81,066 |

| | |
|-----------------------------------|---------|
| Total Collection and Distribution | 196,648 |
|-----------------------------------|---------|

| | |
|--------------------|---------|
| TOTAL EXPENDITURES | 278,714 |
|--------------------|---------|

| | |
|----------------|----------|
| OPERATING LOSS | (98,851) |
|----------------|----------|

NONOPERATING REVENUES (EXPENSES)

| | |
|-----------------------------|----------|
| Interest income | 716 |
| Hook-up fees | 34,500 |
| Interest and fiscal charges | (16,050) |

| | |
|----------------------------------------|--------|
| TOTAL NONOPERATING REVENUES (EXPENSES) | 19,166 |
|----------------------------------------|--------|

| | |
|-----------------------|----------|
| CHANGES IN NET ASSETS | (79,685) |
|-----------------------|----------|

| | |
|--------------------|-----------|
| NET ASSETS, JULY 1 | 2,321,580 |
|--------------------|-----------|

| | |
|---------------------|--------------|
| NET ASSETS, JUNE 30 | \$ 2,241,895 |
|---------------------|--------------|

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
SEWAGE DISPOSAL SYSTEM
FOR THE YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|-------------------------------------------|------------------|
| Customers and other revenues | \$ 192,469 |
| Suppliers for goods and services | (78,293) |
| Employees for services | <u>(110,187)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>3,989</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|-----------------------------------------------------|----------------|
| Restricted cash | (7,977) |
| Customer deposits payable | <u>780</u> |
| NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES | <u>(7,197)</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|------------------------------------------------------------------|-----------------|
| Proceeds | |
| Tap fees | 34,500 |
| Debt | |
| Principal | (16,000) |
| Interest | <u>(16,050)</u> |
| NET CASH PROVIDED BY CAPTIAL AND RELATED FINANCING ACTIVITIES | <u>2,450</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|----------------------------------------------|------------|
| Interest received | <u>716</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (42) |

| | |
|-----------------------------------|----------------|
| CASH AND CASH EQUIVALENTS, JULY 1 | <u>197,250</u> |
|-----------------------------------|----------------|

| | |
|------------------------------------|--------------------------|
| CASH AND CASH EQUIVALENTS, JUNE 30 | <u><u>\$ 197,208</u></u> |
|------------------------------------|--------------------------|

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
SEWAGE DISPOSAL SYSTEM - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

| | |
|----------------------------------------------|------------------------|
| RECONCILIATION OF OPERATING LOSS | |
| TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating loss | \$ <u>(98,851)</u> |
| Adjustments to reconcile operating income to | |
| net cash provided by operating activities | |
| Depreciation | 81,066 |
| (Increase) decrease in current assets | |
| Accounts recievable | (7,379) |
| Due from other funds | 19,985 |
| Increase (decrease) in current liabilities | |
| Accounts payable | (4,291) |
| Accrued payroll | 4,794 |
| Due to other funds | 768 |
| Accrued compensated absences | <u>7,897</u> |
| TOTAL ADJUSTMENTS | <u>102,840</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ <u><u>3,989</u></u> |

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost or reimbursement basis.

The Equipment Pool Fund is operated as an Internal Service Fund.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

EQUIPMENT POOL FUND

JUNE 30, 2005

ASSETS

CURRENT ASSETS

| | |
|------|-----------|
| Cash | \$ 11,109 |
|------|-----------|

CAPITAL ASSETS

| | |
|----------|---------|
| Vehicles | 167,042 |
|----------|---------|

| | |
|-------------------------|---------|
| Machinery and equipment | 148,694 |
|-------------------------|---------|

| | |
|--|---------|
| | 315,736 |
|--|---------|

| | |
|--------------------------------|---------|
| Less: accumulated depreciation | 212,050 |
|--------------------------------|---------|

| | |
|--------------------|---------|
| NET CAPITAL ASSETS | 103,686 |
|--------------------|---------|

| | |
|--------------|------------|
| TOTAL ASSETS | \$ 114,795 |
|--------------|------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|------------------|----------|
| Accounts payable | \$ 4,225 |
|------------------|----------|

| | |
|--------------------|-----|
| Due to other funds | 111 |
|--------------------|-----|

| | |
|-----------------|-----|
| Accrued payroll | 693 |
|-----------------|-----|

| | |
|-----------------|-----|
| Pension payable | 377 |
|-----------------|-----|

| | |
|------------------------------|-----|
| Accrued compensated absences | 562 |
|------------------------------|-----|

| | |
|-----------------------------------|--------|
| Current portion of long-term debt | 19,483 |
|-----------------------------------|--------|

| | |
|---------------------------|--------|
| TOTAL CURRENT LIABILITIES | 25,451 |
|---------------------------|--------|

LONG-TERM LIABILITIES

| | |
|-----------------------------|--------|
| Note payable-2001 GMC Truck | 18,864 |
|-----------------------------|--------|

| | |
|---------------------|--------|
| Note payable-Loader | 13,343 |
|---------------------|--------|

| | |
|-----------------------------|--------|
| TOTAL LONG-TERM LIABILITIES | 32,207 |
|-----------------------------|--------|

| | |
|-------------------|--------|
| TOTAL LIABILITIES | 57,658 |
|-------------------|--------|

NET ASSETS

| | |
|-------------------------------------------------|--------|
| Invested in capital assets, net of related debt | 51,996 |
|-------------------------------------------------|--------|

| | |
|--------------|-------|
| Unrestricted | 5,141 |
|--------------|-------|

| | |
|------------------|--------|
| TOTAL NET ASSETS | 57,137 |
|------------------|--------|

| | |
|----------------------------------|------------|
| TOTAL LIABILITIES AND NET ASSETS | \$ 114,795 |
|----------------------------------|------------|

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL
EQUIPMENT POOL FUND
FOR THE YEAR ENDED JUNE 30, 2005

| | |
|----------------------------------------|------------------|
| OPERATING REVENUES | |
| Equipment rental | \$ 49,904 |
| Other income | |
| Gas | 4,339 |
| TOTAL REVENUES | <u>54,243</u> |
| OPERATING EXPENSES | |
| Equipment Pool Activities | |
| Salaries | 9,082 |
| Social security | 480 |
| Medicare | 112 |
| Pension | 783 |
| State unemployment | 191 |
| Supplies | 5,349 |
| Repairs and maintenance | 11,654 |
| Radio repairs | 114 |
| Service | 3,807 |
| Gas | 11,613 |
| Health insurance | 2,525 |
| Workers compensation insurance | 219 |
| Liability insurance | 7,210 |
| Dental and vision | 630 |
| Utilities | 5,208 |
| Miscellaneous | 1,475 |
| Depreciation expense | 20,602 |
| TOTAL OPERATING EXPENSES | <u>81,054</u> |
| OPERATING LOSS | <u>(26,811)</u> |
| NON OPERATING REVENUES (EXPENSES) | |
| Interest expense | (1,736) |
| Transfer in from other funds | 50,000 |
| TOTAL NON OPERATING REVENUE (EXPENSES) | <u>48,264</u> |
| CHANGE IN NET ASSETS | 21,453 |
| NET ASSETS, JULY 1 | <u>35,684</u> |
| NET ASSETS, JUNE 30 | <u>\$ 57,137</u> |

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
EQUIPMENT POOL FUND
FOR THE YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--------------------------------------------------|---------------|
| Customers and other revenues | \$ 78,263 |
| Suppliers for goods and services | (58,861) |
| Employees for services | (9,393) |
| | <u>10,009</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>10,009</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|------------------------|---------------|
| Operating transfers in | <u>50,000</u> |
|------------------------|---------------|

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

| | |
|-------------------------------|-----------------|
| Acquisition of capital assets | (12,737) |
| Principal payments on debt | (24,234) |
| Interest | (1,736) |
| | <u>(38,707)</u> |

**NET CASH USED IN CAPITAL AND
RELATED FINANCING ACTIVITIES**

(38,707)

**NET INCREASE IN CASH
AND CASH EQUIVALENTS**

21,302

CASH AND CASH EQUIVALENTS, JULY 1

(10,193)

CASH AND CASH EQUIVALENTS, JUNE 30

\$ 11,109

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
EQUIPMENT POOL FUND - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

RECONCILIATION OF OPERATING INCOME

TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|-----------------------------------------------------------------------------------------|-------------------------|
| Operating loss | \$ <u>(26,811)</u> |
| Adjustments to reconcile operating loss to net cash provided by operating activities | |
| Depreciation | 20,602 |
| (Increase) decrease in current assets | |
| Due from other funds | 24,020 |
| Increase (decrease) in current liabilities | |
| Accounts payable | 1,367 |
| Due to other funds | (10,424) |
| Accrued payroll | 693 |
| Accrued compensated absences | <u>562</u> |
| TOTAL ADJUSTMENTS | <u>36,820</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ <u><u>10,009</u></u> |

PERMANENT FUND

The permanent fund exists to account for resources legally held in trust to be used for Imagination Station Park Fund.

CITY OF POTTERVILLE, MICHIGAN
BALANCE SHEET
PERMANENT FUND
IMAGINATION STATION PARK FUND
JUNE 30, 2005

ASSETS

Cash

\$ 5,054

LIABILITIES AND FUND BALANCE

FUND BALANCE

Reserved for park

\$ 5,054

CITY OF POTTERVILLE, MICHIGAN

PERMANENT FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

IMAGINATION STATION PARK

YEAR ENDED JUNE 30, 2005

| | |
|-----------------------------------------|------------------------|
| REVENUES | |
| Interest and rents | \$ <u>1,384</u> |
| EXPENDITURES | <u> </u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>1,384</u> |
| FUND BALANCE, JULY 1 | |
| PRIOR PERIOD ADJUSTMENT | <u>3,670</u> |
| FUND BALANCE, JUNE 30 | \$ <u><u>5,054</u></u> |

FIDUCIARY FUNDS

Fiduciary Funds are established to administer resource received and held by a governmental unit as the trustee or as the agent for others. Use of these funds facilitates the discharge of responsibilities placed upon the governmental unit by virtue of law or other similar authority.

In this category, the City administers the transactions of the Current and Delinquent Tax Funds and Imprest Payroll Fund.

CITY OF POTTERVILLE, MICHIGAN

FIDUCIARY FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2005

| | EXTERNAL AGENCY FUNDS | | TOTAL EXTERNAL AGENCY FUNDS | INTERNAL AGENCY FUNDS IMPREST PAYROLL |
|---------------------------------|--------------------------|-------------------|--------------------------------------|---------------------------------------------------|
| | CURRENT TAX | DELINQUENT TAX | | |
| ASSETS | | | | |
| Cash | \$ 37,156 | \$ 263 | \$ 37,419 | \$ 39,167 |
| Due from | | | | |
| Other funds | | | | 2,087 |
| Component unit | 10,338 | | 10,338 | |
| Prepaid taxes | | | | 2,033 |
| TOTAL ASSETS | <u>\$ 47,494</u> | <u>\$ 263</u> | <u>\$ 47,757</u> | <u>\$ 43,287</u> |
| LIABILITIES | | | | |
| Due to other governmental units | \$ 29,822 | \$ | \$ 29,822 | \$ |
| Due to other funds | 17,672 | 263 | 17,935 | 15,108 |
| Payroll withholdings payable | | | | 3,197 |
| Pension payable | | | | 24,982 |
| TOTAL LIABILITIES | <u>\$ 47,494</u> | <u>\$ 263</u> | <u>\$ 47,757</u> | <u>\$ 43,287</u> |

SUPPLEMENTARY INFORMATION

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING
JUNE 30, 2005

TITLE OF ISSUE: 1979 Series, Sewage Disposal System Revenue Bonds

PURPOSE: Construction of Sanitary Sewage Disposal System

DATE OF ISSUE: November 1, 1979

AMOUNT OF ISSUE \$ 551,000

AMOUNT REDEEMED:

| | | |
|-------------------------|---------------|----------------|
| Prior to current period | \$ 230,000 | |
| During current period | <u>16,000</u> | <u>246,000</u> |

BALANCE OUTSTANDING, JUNE 30, 2005 \$ 305,000

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|-------------|-------|-------------------|-------------------|-------------------|
| May 1, 2006 | 5.00% | \$ 33,250 | \$ 15,250 | \$ 18,000 |
| May 1, 2007 | 5.00% | 32,350 | 14,350 | 18,000 |
| May 1, 2008 | 5.00% | 33,450 | 13,450 | 20,000 |
| May 1, 2009 | 5.00% | 32,450 | 12,450 | 20,000 |
| May 1, 2010 | 5.00% | 31,450 | 11,450 | 20,000 |
| May 1, 2011 | 5.00% | 33,450 | 10,450 | 23,000 |
| May 1, 2012 | 5.00% | 32,300 | 9,300 | 23,000 |
| May 1, 2013 | 5.00% | 33,150 | 8,150 | 25,000 |
| May 1, 2014 | 5.00% | 31,900 | 6,900 | 25,000 |
| May 1, 2015 | 5.00% | 32,650 | 5,650 | 27,000 |
| May 1, 2016 | 5.00% | 31,300 | 4,300 | 27,000 |
| May 1, 2017 | 5.00% | 30,950 | 2,950 | 28,000 |
| May 1, 2018 | 5.00% | <u>32,550</u> | <u>1,550</u> | <u>31,000</u> |
| | | <u>\$ 421,200</u> | <u>\$ 116,200</u> | <u>\$ 305,000</u> |

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING – Continued
JUNE 30, 2005

TITLE OF ISSUE: Lease Purchase Agreement for a John Deere 2WD Tractor Loader

PURPOSE: Purchase John Deere Backhoe

DATE OF ISSUE: July 1, 2004

AMOUNT OF ISSUE \$ 40,030

AMOUNT REDEEMED:

During current period \$ 13,343 13,343

BALANCE OUTSTANDING, JUNE 30, 2005 \$ 26,687

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|---------------|------|------------------|----------------------|------------------|
| June 30, 2006 | 0% | \$ 13,344 | \$ | \$ 13,344 |
| June 30, 2007 | 0% | <u>13,343</u> | <u> </u> | <u>13,343</u> |
| | | \$ <u>26,687</u> | \$ <u> </u> | \$ <u>26,687</u> |

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING – Continued
JUNE 30, 2005

TITLE OF ISSUE: Lease Purchase Agreement for GMC 1 ½ ton Pickup Truck

PURPOSE: Purchase GMC 1 ½ ton Pickup Truck

DATE OF ISSUE: May 7, 2001

AMOUNT OF ISSUE \$ 47,589

AMOUNT REDEEMED:

| | | |
|-------------------------|--------------|---------------|
| Prior to current period | \$ 16,752 | |
| During current period | <u>5,834</u> | <u>22,586</u> |

BALANCE OUTSTANDING, JUNE 30, 2005 \$ 25,003

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|---------------|-------|------------------|-----------------|------------------|
| June 30, 2006 | 5.00% | \$ 7,250 | \$ 1,111 | \$ 6,139 |
| June 30, 2007 | 5.00% | 7,251 | 797 | 6,454 |
| June 30, 2008 | 5.00% | 7,250 | 466 | 6,784 |
| June 30, 2009 | 5.00% | <u>5,749</u> | <u>123</u> | <u>5,626</u> |
| | | <u>\$ 27,500</u> | <u>\$ 2,497</u> | <u>\$ 25,003</u> |

Payments are due monthly at \$604.18 and include interest at 5.00%.

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING – Continued
JUNE 30, 2005

TITLE OF ISSUE: 1991 Series A, Special Assessment Bonds

PURPOSE: Construction of Storm Drain

DATE OF ISSUE: June 1, 1991

AMOUNT OF ISSUE \$ 120,000

AMOUNT REDEEMED:

| | | |
|-------------------------|--------------|---------------|
| Prior to current period | \$ 75,000 | |
| During current period | <u>5,000</u> | <u>80,000</u> |

BALANCE OUTSTANDING, JUNE 30, 2005 \$ 40,000

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|-----------------|-------|------------------|-----------------|------------------|
| January 1, 2006 | 7.05% | \$ 1,431 | \$ 1,431 | \$ |
| July 1, 2006 | 7.05% | 6,431 | 1,431 | 5,000 |
| January 1, 2007 | 7.10% | 1,255 | 1,255 | |
| July 1, 2007 | 7.10% | 6,255 | 1,255 | 5,000 |
| January 1, 2008 | 7.15% | 1,078 | 1,078 | |
| July 1, 2008 | 7.15% | 11,078 | 1,078 | 10,000 |
| January 1, 2009 | 7.20% | 720 | 720 | |
| July 1, 2009 | 7.20% | 10,720 | 720 | 10,000 |
| January 1, 2010 | 7.20% | 360 | 360 | |
| July 1, 2010 | 7.20% | <u>10,360</u> | <u>360</u> | <u>10,000</u> |
| | | \$ <u>49,688</u> | \$ <u>9,688</u> | \$ <u>40,000</u> |

PRIOR REDEMPTION

After July 1, 2001, bonds are subject to optional redemption in whole or in part at a premium.

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING – Continued
JUNE 30, 2005

TITLE OF ISSUE: 1991 Series B, Special Assessment Bonds

PURPOSE: Construction of Storm Drain

DATE OF ISSUE: June 1, 1991

AMOUNT OF ISSUE \$ 330,000

AMOUNT REDEEMED:

| | | |
|-------------------------|---------------|----------------|
| Prior to current period | \$ 210,000 | |
| During current period | <u>20,000</u> | <u>230,000</u> |

BALANCE OUTSTANDING, JUNE 30, 2005 \$ 100,000

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|-----------------|-------|-------------------|------------------|-------------------|
| January 1, 2006 | 7.10% | \$ 3,575 | \$ 3,575 | \$ |
| July 1, 2006 | 7.10% | 23,575 | 3,575 | 20,000 |
| January 1, 2007 | 7.10% | 2,865 | 2,865 | |
| July 1, 2007 | 7.10% | 22,865 | 2,865 | 20,000 |
| January 1, 2008 | 7.15% | 2,155 | 2,155 | |
| July 1, 2008 | 7.15% | 22,155 | 2,155 | 20,000 |
| January 1, 2009 | 7.20% | 1,440 | 1,440 | |
| July 1, 2009 | 7.20% | 21,440 | 1,440 | 20,000 |
| January 1, 2010 | 7.20% | 720 | 720 | |
| July 1, 2010 | 7.20% | <u>20,720</u> | <u>720</u> | <u>20,000</u> |
| | | \$ <u>121,510</u> | \$ <u>21,510</u> | \$ <u>100,000</u> |

PRIOR REDEMPTION

After July 1, 2001, bonds are subject to optional redemption in whole or in part at a premium.

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING – Continued
JUNE 30, 2005

TITLE OF ISSUE: Sunset Hills Special Assessment Bonds

PURPOSE: Construction Sewer Lift Station

DATE OF ISSUE: November 27, 1997

AMOUNT OF ISSUE \$ 400,000

AMOUNT REDEEMED:

| | | |
|-------------------------|---------------|----------------|
| Prior to current period | \$ 160,000 | |
| During current period | <u>30,000</u> | <u>190,000</u> |

BALANCE OUTSTANDING, JUNE 30, 2005 \$ 210,000

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|-----------------|-------|-------------------|------------------|-------------------|
| October 1, 2005 | 5.40% | \$ 35,708 | \$ 5,708 | \$ 30,000 |
| April 1, 2006 | 5.40% | 4,898 | 4,898 | |
| October 1, 2006 | 5.40% | 34,898 | 4,898 | 30,000 |
| April 1, 2007 | 5.45% | 4,088 | 4,088 | |
| October 1, 2007 | 5.45% | 34,088 | 4,088 | 30,000 |
| April 1, 2008 | 5.45% | 3,270 | 3,270 | |
| October 1, 2008 | 5.45% | 33,270 | 3,270 | 30,000 |
| April 1, 2009 | 5.45% | 2,453 | 2,453 | |
| October, 2009 | 5.45% | 32,453 | 2,453 | 30,000 |
| April 1, 2010 | 5.45% | 1,635 | 1,635 | |
| October 1, 2010 | 5.45% | 31,635 | 1,635 | 30,000 |
| April 1, 2011 | 5.45% | 818 | 818 | |
| October 1, 2011 | 5.45% | <u>30,818</u> | <u>818</u> | <u>30,000</u> |
| | | <u>\$ 250,032</u> | <u>\$ 40,032</u> | <u>\$ 210,000</u> |

PRIOR REDEMPTION

Bonds of this issue, maturing the years 1997 to 2007, inclusive, are not subject to redemption prior to maturity. After October 1, 2007, but prior to October 1, 2008, bonds are subject to optional redemption in whole or in part at a premium of 1% of par value. After October 1, 2008, bonds are subject to optional redemption in or in part at par value.

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING – Continued
JUNE 30, 2005

TITLE OF ISSUE: 2005 Refunding Building Authority Bonds

PURPOSE: Construct Recreational Facilities

DATE OF ISSUE:

AMOUNT OF ISSUE \$ 675,000

AMOUNT REDEEMED:
During current period \$ _____

BALANCE OUTSTANDING, JUNE 30, 2005 \$ 675,000

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|------------------|-------|-------------------|-------------------|-------------------|
| November 1, 2005 | 4.35% | \$ 69,681 | \$ 14,681 | \$ 55,000 |
| May 1, 2006 | 4.35% | 13,485 | 13,485 | |
| November 1, 2006 | 4.35% | 68,485 | 13,485 | 55,000 |
| May 1, 2007 | 4.35% | 12,289 | 12,289 | |
| November 1, 2007 | 4.35% | 72,289 | 12,289 | 60,000 |
| May 1, 2008 | 4.35% | 10,984 | 10,984 | |
| November 1, 2008 | 4.35% | 80,984 | 10,984 | 70,000 |
| May 1, 2009 | 4.35% | 9,461 | 9,461 | |
| November, 2009 | 4.35% | 79,461 | 9,461 | 70,000 |
| May 1, 2010 | 4.35% | 7,939 | 7,939 | |
| November 1, 2010 | 4.35% | 77,939 | 7,939 | 70,000 |
| May 1, 2011 | 4.35% | 6,416 | 6,416 | |
| November 1, 2011 | | 81,416 | 6,416 | 75,000 |
| May 1, 2012 | | 4,785 | 4,785 | |
| November 1, 2012 | | 84,785 | 4,785 | 80,000 |
| May 1, 2013 | | 3,045 | 3,045 | |
| November 1, 2013 | | 88,045 | 3,045 | 85,000 |
| May 1, 2014 | | 1,196 | 1,196 | |
| November 1, 2014 | | <u>56,196</u> | <u>1,196</u> | <u>55,000</u> |
| | | \$ <u>828,881</u> | \$ <u>153,881</u> | \$ <u>675,000</u> |

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING – Continued
JUNE 30, 2005

TITLE OF ISSUE: Michigan Department of Transportation Note

PURPOSE: Construction of a Turning Lane

DATE OF ISSUE: April 14, 1999

AMOUNT OF ISSUE \$ 35,000

AMOUNT REDEEMED:

| | | |
|-------------------------|--------------|---------------|
| Prior to current period | \$ 24,001 | |
| During current period | <u>5,391</u> | <u>29,392</u> |

BALANCE OUTSTANDING, JUNE 30, 2005 \$ 5,608

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|---------------|-------|-----------------|---------------|-----------------|
| April 1, 2006 | 4.00% | \$ <u>5,832</u> | \$ <u>224</u> | \$ <u>5,608</u> |

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING – Continued
JUNE 30, 2005

TITLE OF ISSUE: 2002 General Obligation Limited Tax Bonds

PURPOSE: Construct Water Well

DATE OF ISSUE: November 1, 2002

AMOUNT OF ISSUE \$ 700,000

AMOUNT REDEEMED:

| | | |
|-------------------------|---------------|---------------|
| Prior to current period | \$ 15,000 | |
| During current period | <u>15,000</u> | <u>30,000</u> |

BALANCE OUTSTANDING, JUNE 30, 2005 \$ 670,000

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|-----------------|-------|-----------|-----------|-----------|
| October 1, 2005 | 7.00% | \$ 31,585 | \$ 16,585 | \$ 15,000 |
| April 1, 2006 | 7.00% | 16,060 | 16,060 | |
| October 1, 2006 | 7.00% | 36,060 | 16,060 | 20,000 |
| April 1, 2007 | 7.00% | 15,360 | 15,360 | |
| October 1, 2007 | 7.00% | 35,360 | 15,360 | 20,000 |
| April 1, 2008 | 7.00% | 14,660 | 14,660 | |
| October 1, 2008 | 7.00% | 34,660 | 14,660 | 20,000 |
| April 1, 2009 | 7.00% | 13,960 | 13,960 | |
| October, 2009 | 7.00% | 38,960 | 13,960 | 25,000 |
| April 1, 2010 | 7.00% | 13,085 | 13,085 | |
| October 1, 2010 | 7.00% | 38,085 | 13,085 | 25,000 |
| April 1, 2011 | 7.00% | 12,210 | 12,210 | |
| October 1, 2011 | 7.00% | 42,210 | 12,210 | 30,000 |
| April 1, 2012 | 6.50% | 11,160 | 11,160 | |
| October 1, 2012 | 6.50% | 41,160 | 11,160 | 30,000 |
| April 1, 2013 | 4.20% | 10,185 | 10,185 | |
| October 1, 2013 | 4.20% | 45,185 | 10,185 | 35,000 |
| April 1, 2014 | 4.20% | 9,450 | 9,450 | |
| October 1, 2014 | 4.20% | 44,450 | 9,450 | 35,000 |
| April 1, 2015 | 4.20% | 8,715 | 8,715 | |
| October 1, 2015 | 4.20% | 48,715 | 8,715 | 40,000 |
| April 1, 2016 | 4.20% | 7,875 | 7,875 | |
| October 1, 2016 | 4.20% | 52,875 | 7,875 | 45,000 |
| April 1, 2017 | 4.20% | 6,930 | 6,930 | |
| October 1, 2017 | 4.20% | 51,930 | 6,930 | 45,000 |
| April 1, 2018 | 4.20% | 5,985 | 5,985 | |
| October 1, 2018 | 4.20% | 55,985 | 5,985 | 50,000 |
| April 1, 2019 | 4.20% | 4,935 | 4,935 | |
| October 1, 2019 | 4.20% | 59,935 | 4,935 | 55,000 |

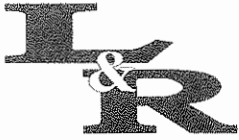
CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF BONDED DEBT OUTSTANDING – Concluded
JUNE 30, 2005

2002 General Obligation Limited Tax Bonds - Concluded

| DUE DATES | RATE | TOTAL | INTEREST | PRINCIPAL |
|-----------------|-------|---------------------|-------------------|-------------------|
| April 1, 2020 | 4.20% | \$ 3,780 | \$ 3,780 | \$ |
| October 1, 2020 | 4.20% | 58,780 | 3,780 | 55,000 |
| April 1, 2021 | 4.20% | 2,625 | 2,625 | |
| October 1, 2021 | 4.20% | 62,625 | 2,625 | 60,000 |
| April 1, 2022 | 4.20% | 1,365 | 1,365 | |
| October 1, 2022 | 4.20% | <u>66,365</u> | <u>1,365</u> | <u>65,000</u> |
| | | <u>\$ 1,003,265</u> | <u>\$ 333,265</u> | <u>\$ 670,000</u> |

PRIOR REDEMPTION

Bonds maturing on or before October 1, 2011 are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 maturing on or after October 1, 2012 shall be subject to redemption without premium, at the option of the City, in such order as the City shall determine and within any maturity by lot, on any interest payment date on or after October 1, 2011, at par and accrued interest to the date fixed for redemption.



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Honorable Mayor and City Council
City of Potterville
Potterville, Michigan

We have audited the general purpose financial statements of the CITY OF POTTERVILLE, MICHIGAN, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Potterville Michigan's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Potterville Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the City Council, management, and State and Federal Agencies. However, this report is a matter of public record and its distribution is not limited.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
August 23, 2005



Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS AND RECOMMENDATIONS

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Honorable Mayor and City Council
City of Pottersville
Pottersville, Michigan

We have audited the financial statements of the CITY OF POTTERVILLE, MICHIGAN for the year ended June 30, 2005, and have issued our report thereon dated August 23, 2005. As part of our audit, we made a study and evaluation of the City's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the City of Pottersville is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. However, our examination did disclose the following conditions that we believe result in a risk that errors or irregularities in amounts that would be material in relation to the financial statements of the City of Pottersville may occur and not be detected within a timely period.

We noted the following recommendations concerning internal control weaknesses during the current year's audit.

CURRENT YEAR RECOMMENDATIONS

CASH RECEIPTS

We noted that there was a lack of segregation of duties within the cash receipts area. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts system of The City of Pottersville will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by more than one member of The City of Pottersville's personnel. The following procedures should be enacted to ensure efficient internal control:

- One employee, preferably a non-accounting person, should open the mail, make a control list of all receipts, and restrictively endorse all items received as "FOR DEPOSIT ONLY, CITY OF POTTERVILLE."

CURRENT YEAR RECOMMENDATIONS - Continued

CASH RECEIPTS - Concluded

- The receipts should then go to another employee for further processing and deposit to the bank on a timely basis. Once endorsed, checks should remain within the control of accounting personnel. We further recommend that they be put in a locked location as soon as they are endorsed. No cash or checks should be left in the open. Receipts should be deposited daily.
- Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.
- Additionally, when a tape roll from the cash register is replaced it should be marked with beginning and ending dates and cash receipt numbers. All deposit slips should be dated so that they can be further reviewed to the bank statement.

CASH DISBURSEMENTS

1. After the council approves invoices they should be initialed to indicate that they have been approved for payment. This will ensure that no checks are written without authorization. When checks are given to the check signers, the relevant invoice should be attached. This will ensure that checks are written correctly. Once the checks have been signed, they should be forwarded to a person independent of the accounts payable function for mailing.
2. During our audit, we noted that paid invoices could be distinguished from unpaid invoices only by check vouchers that are attached to paid invoices. Check vouchers can at times become detached from paid invoices. Without having some notation of payment on the invoice, the check writer could inadvertently pay this invoice for a second time. We would like to recommend the use of a "PAID" stamp or some other consistent method of defacing the invoice. This will ensure proper cancellation of invoices after payment, and should help prevent double payment on invoices. We further recommend that the check number, date, and general ledger account be written on the invoice.
3. During our audit, we noted no indication that vendor invoices were checked to approved purchasing documents or extensions, footings, discounts and freight terms checked for accuracy. We recommend these items be implemented and that their performance is indicated on the face of the original invoice.
4. During the audit, we noted that a member of the accounting personnel presently has check signing authority, access to blank checks and prepares cash disbursements. We recommend that check signers not be accounting personnel. If a signature stamp is used, it should be kept secure by the authorized signer at all times. **Management response: This is in the process of being implemented.**
5. We noted during our audit that Potterville hand writes checks without the benefit of a check protector device. The use of this procedure opens the possibility of check value alterations. We also noted that a hand written check had not been entered into the general ledger. We recommend the City of Potterville eliminate the use of hand written checks and convert all check writing to the automated system currently used for most check writing. Converting to the automated system will improve the control over these accounts. **Management response: This is in the process of being implemented.**

CURRENT YEAR RECOMMENDATIONS - Continued

CASH DISBURSEMENTS – Concluded

6. Blank checks for the general bank account are not adequately controlled at night because they are left in an unlocked drawer in the accounting department. This allows for possible misappropriation of cash. We also noted that three pages of the payroll journal were printed on check stock. We strongly recommend that the blank checks be placed in a locked box or cabinet accessible only to those with proper authorization and purpose. **Management response: The blank checks are now kept in a locked cabinet.**
7. We noted during our audit that Pottersville's current operating cash account provides them with images of the face only of their canceled checks. Review of canceled checks for endorsements is impossible under this account, which weakens internal controls over cash. We recommend that Pottersville make arrangements with the bank to have online access to their account, which would enable them to view the scanned images of both the fronts and backs of the canceled checks. The ability to review all canceled checks is critically important to maintaining a strong system of cash controls. We further recommend that the reconciliation procedure include a comparison of canceled checks with the disbursement journal as to number, date, payee, and amount.
8. We noted during our audit that Pottersville does not perform independent random checks on bank reconciliation and investigations of checks that fail to clear the bank. We recommend that a person independent of the accounting function perform random checks of bank reconciliations and investigate any checks that fail to clear the bank.

CASH

1. Outstanding transfers among accounts are reflected on the bank reconciliations as "Deposits in Transit". Amounts owing from one fund to another should be recorded in the appropriate Due To/From accounts until the transfer is made. This way the cash account balances and due to/from balances are not over/under stated. Payroll transfers were treated in a similar manner when the transfer occurred in one month for the previous or subsequent month. Rather than being reflected in the bank reconciliation as a Deposit in Transit, such amounts should be posted to the appropriate due to/from accounts or payroll liability accounts when the transfer takes place, if different than the actual pay date. **Management response: This is in the process of being implemented.**
2. Currently, some bank reconciliations include an unallocated variance of a relatively small amount. At least annually, such small amounts should be adjusted to zero with the offset being to miscellaneous income or expense.
3. During our audit, it came to our attention that the security container is inoperable. The container is kept in a locked room. The City of Pottersville should repair or replace the security container as soon as possible to maintain control and security over its assets.

PAYROLL

1. We observed during our audit that one person is responsible for preparing payroll input, reviewing the payroll journals, finalizing each payroll for employees, and acts as an authorized check signer. This combination of duties significantly increases the chance of an error or irregularity going unnoticed. We recommend that whoever prepares the payroll is not also an authorized check signer and someone completely independent of the process review the payroll journals for accuracy.
2. Some employee files are missing payroll deduction authorization forms. We recommend all deductions have an authorization form filled out and kept in the employee file. Pay rates, in writing from the authorized official, should also be kept in each employee's file. When payroll is prepared, the file should be compared with the payroll system rate. This will ensure that only authorized deductions are being deducted from employees' payroll and the correct rate of employee pay is applied.

CURRENT YEAR RECOMMENDATIONS – Continued

PAYROLL – Concluded

3. During our audit, we noted that withholding amounts on several payrolls did not agree with withholding amounts manually determined using employees withholding information and taxing authority circulars. We recommend that quarterly random checks be made to compare the payroll system determined withholding amounts with withholding determined manually and the cause of the differences investigated and corrected.
4. We noted an instance where payroll records were missing for a specific pay period. We recommend that the following steps be taken. Decide on a systematic manner of filing documents, e.g., in order of pay period by year in binders. Describe the system in the accounting manual or post a description on the filing cabinets or storage room so employees will know how to find and re-file documents. Then, institute use of “sign-out” cards to be filled out when a document is removed, showing who took the record. The card should be placed in the file in place of the removed document.
5. During our audit, we noted that Federal forms 941, State of Michigan Withholdings and State of Michigan Unemployment reports and payments have not been filed or paid timely. Federal and State laws require timely filing and payment of payroll tax returns and tax liabilities. Failure to comply on the part of the City has resulted in penalties and interest being assessed by both the Federal and State Governments. It is legally required that payroll reports and payments be made timely.
6. We noted the year-to-date amounts in the payroll registers did not agree with the sum of amounts from individual payroll periods. We strongly recommend investigating why this discrepancy exists and having the software corrected, or the procedures regarding how payroll is processed corrected so that such math errors are corrected. It is essential that reports such as the payroll register provide accurate information to facilitate proper reconciliation and proper completion and payment of payroll tax returns.
7. We noted an instance in the payroll system where the check for state withholding liability was prepared and sent about one week prior to the bank clearance date. However, the general ledger posting date was the same as the bank clearance date. General ledger postings must reflect the dates transactions actually occur for financial reports to be accurate.

UTILITY BILLINGS

1. During our audit we noted that the utility billings were not reviewed by someone other than the preparer. We recommend that someone other than the person preparing the billings review the billing reports for accuracy. We further recommend that adjustments not be made by the person who prepares the billing and that any billing adjustment is reviewed by the City Manager. This will prevent errors being overlooked and accounts being adjusted without approval. We also noted that utility receivables report is not reconciled to the general ledger. We recommend that the utility receivable be reconciled to the general ledger on a monthly basis.
2. During our audit, we noted that the water and sewer customer deposits were not in agreement with the general ledger. We recommend that the customer deposits be reconciled on a monthly basis to the general ledger. This will help to ensure the accuracy of this restricted cash.

CURRENT YEAR RECOMMENDATIONS – Concluded

SPECIAL ASSESSMENTS

During our audit, we noted there is no reconciliation of the special assessments. We recommend that the special assessments ledger book be reconciled to the general ledger on a monthly basis.

TAX FUND


We noted during our audit that no one reconciles the Tax Fund. We recommend that the Tax Fund be reconciled on a monthly basis. This procedure will help to ensure the accuracy of the tax receipts and disbursements of this fund.

BANK STATEMENTS

We suggest that the unopened bank statements received in the mail be forwarded directly to the City Manager. The City Manager should open and review the bank statements and copies of the canceled checks and investigate strange or unusual items should any be found. Documentation of the review of the items should be made on the face of the bank statement. We feel that this process will further enhance the checks and balances necessary for strong controls over cash.

We are grateful to the officials and employees of the City of Pottersville for the assistance and cooperation we received during the audit, and we thank them.

Very truly yours,


Certified Public Accountants

East Lansing, Michigan
August 23, 2005